THE CHINA WEEKLY REVIEW

密勒氏評論報

A Weekly Newspaper Established in 1917

February 10, 1940

The Problem of the Municipal Deficit

By John Ahlers

On China's Financial Front

BY ARTHUR N. YOUNG

Minseito Leader Resigns

Tale of Douglas Aircraft

BY J. D. BOWERSOCK

Bloody Battles Now Raging in Kwangsi; Japanese Claim Pingyang Captured

VOLUME 91 PRICE 50 CENTS NUMBER 11

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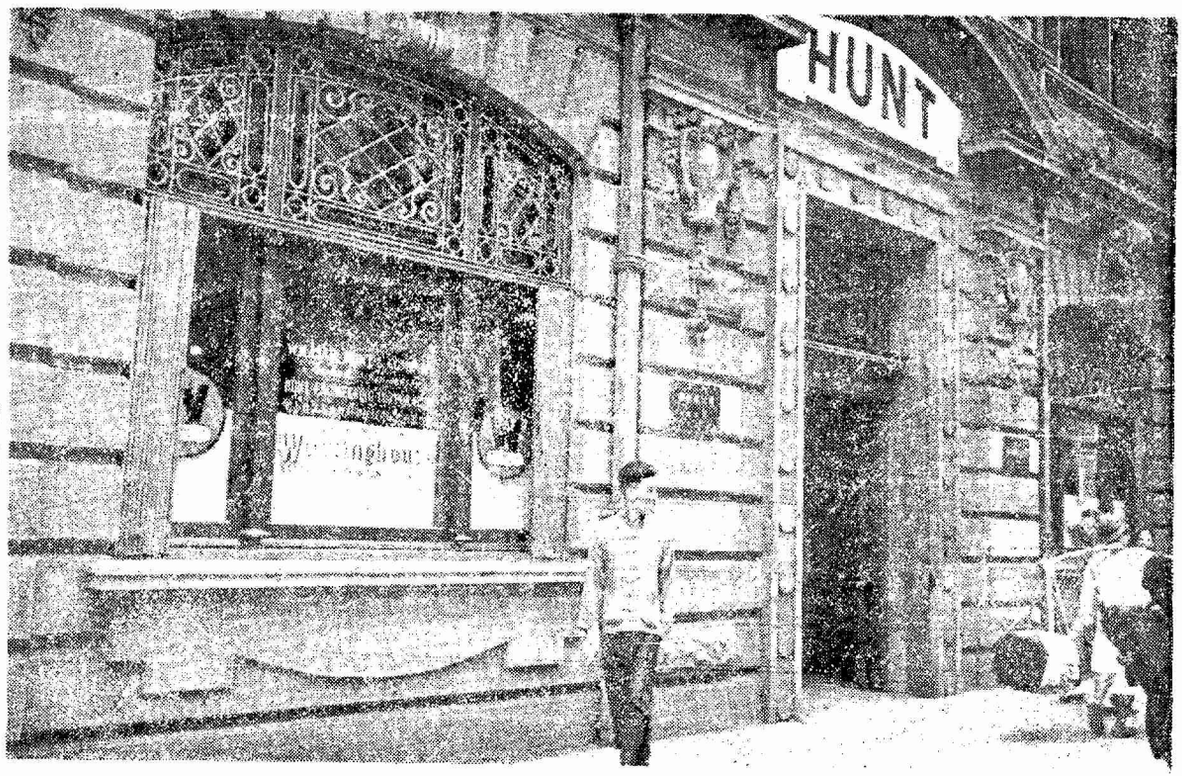

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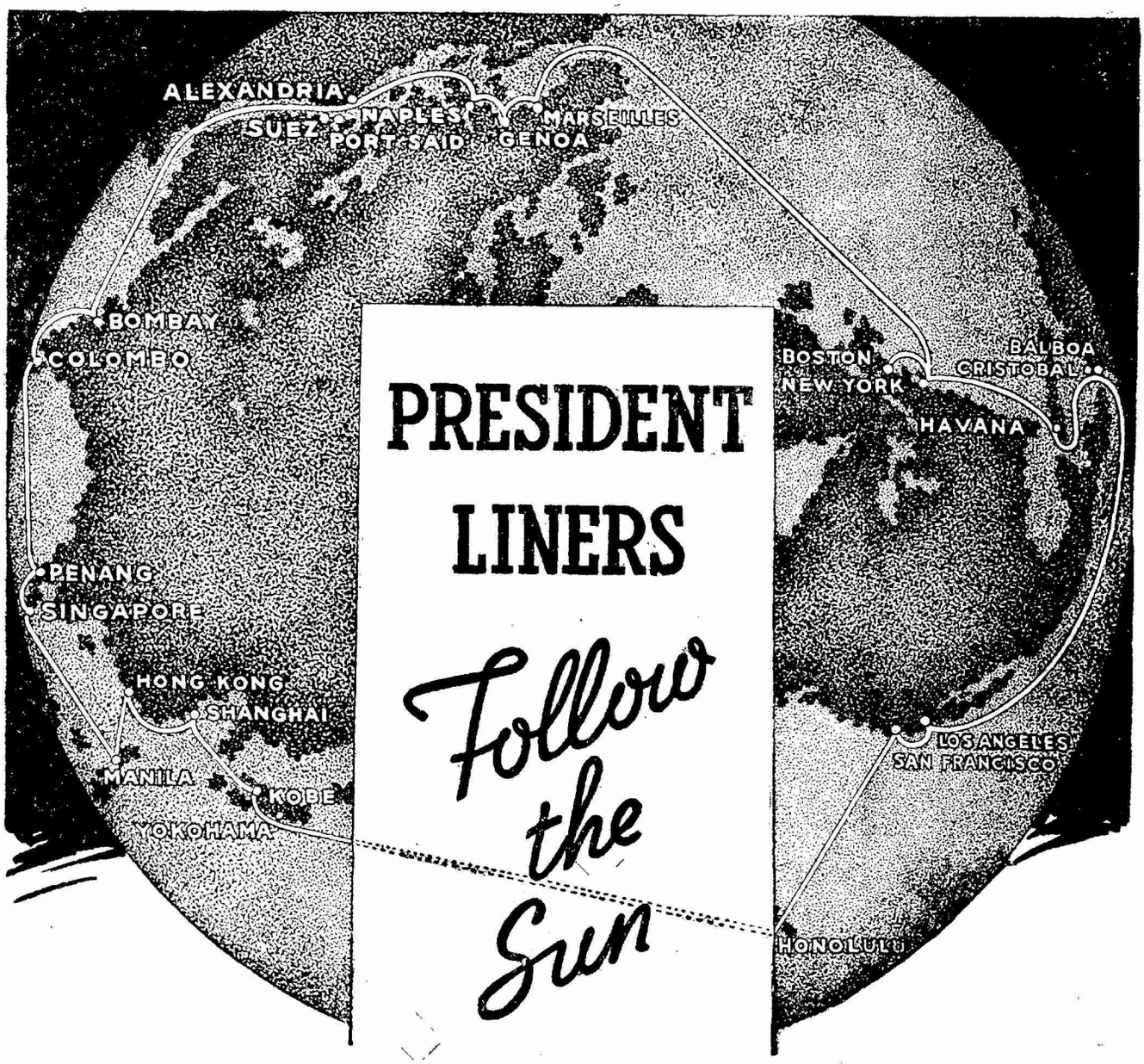

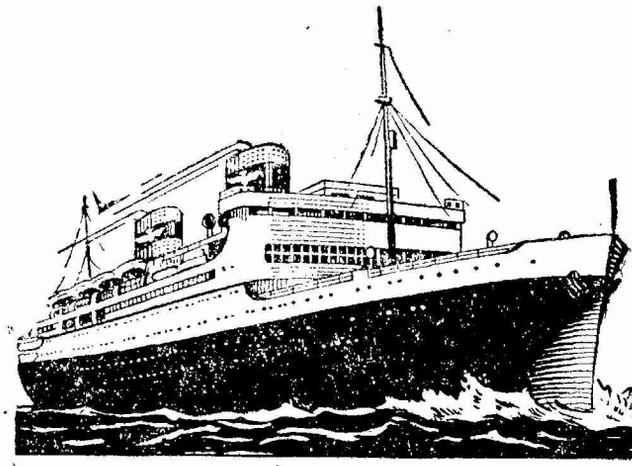

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What People Are Saying

Comments from readers on current topics are cordially invited; their opinions, however, do not necessarily represent the views of *The China Weekly Review.*

MEDICAL REBATES

To the Editor:

The declaration by ten prominent medical practitioners in Shanghai towards the close of 1939, denouncing the dishonorable practice of some doctors in accepting rebates from some dispensaries, laboratories, hospitals, nursing institutes, etc. and the prompt response by the Shanghai Branch of the Chinese Medical Association at its annual assembly of December 28 in unanimously passing a resolution that such practice be abolished forthwith, have marked a new era in the history of the medical profession in China. Almost overnight, the city's leading dispensaries, in supporting the movement, announced one after another that with the new year they would discontinue giving rebates to doctors. It appears that with these allied professions blending themselves together for the cause of reform, the established custom of wrongful giving and taking —a blot on physicians and pharmacists alike—will be wiped away before long.

The decision made by the group of physicians was prompted by no other motive than a desire to remove the immoral practices from their profession. By confessing the past mistakes of their own and those in their profession they indicated their aversion to dishonesty and determination to exterminate it. They have begun with themselves first, believing that others who may adhere to the habit, can be led by the example.

The movement is, however, not limited to the medical profession as there is a national cause attached to the resolution of the ten proposers. In the course of their meditation, they were confronted with two alternatives: either the medical profession sacrifice their selfishness for the honor of their nation or they sacrifice the honor of their nation for the sake of their selfishness. They have faith that once the medical practitioners in this city are morally re-armed, there will soon arise a spirit of honesty and unselfishness sweeping over the nation and bringing other professions into line.

F. D. ZAU, M.D.

Shanghai, February 2, 1940

FROM THE NORTHWEST

To the Editor:

Please renew our subscription—by airmail. We receive the paper quite regularly—at times it comes through in 10 days, but one copy took two months. An average probably would be between 25 and 40 days. It is zero weather here and much sickness. We have been unable to obtain medical supplies from Shanghai.

V. G. P.

Hwangyuan, Tsinghai
(Kokonor), China,
Dec. 22, 1939

NOW HE SEES

To the Editor:

I am anxious to see what will happen on the 26 day of this month and I do hope that the abrogation of our trade treaty with Japan will become enforced on that day.

R. L.

Everett, Washington,
Jan. 8, 1940

"WELL IN TOUCH"

To the Editor:

I always appreciate **The Review** as it keeps me well in touch with Chinese affairs. I hope the war situation is treating you and my other friends in Shanghai kindly, but I am making no comment on it because I know that by the time this letter reaches you, you will be in a position to draw your own conclusions.

M. I.

London, Dec. 8, 1939

"OVER THEIR HEADS"

To the Editor:

The latest dope is that the President wants to delay action on the proposal to boycott Japan, so he can hold it over the heads of the Japanese during the present negotiations. As you can imagine, we are facing a very critical time in connection with American foreign policy in the Far East. The embargo has a 50-50 chance of passage in Congress. But it is possible that we may not see any immediate action on the bill. Another loan to China is also in the offing. You may be assured there will be no new trade treaty with Japan, nor any direct and immediate cancellation of all Japan's trade privileges. Rather, we shall see a gradual tightening of restrictions on Nippon step-by-step, unless the Japanese withdraw from China or change their policy entirely, which now seems entirely unlikely.

S. H.

New York, Jan. 2, 1940

EMIGRANT ENGLISH

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THE CHINA WEEKLY REVIEW

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C. FRANK GLASS and HOH CHIH-HSIANG, *Assistant Editors*

F. K. CHAO, *Business Manager* TRYPHON V. KU, *Advertising Manager*

Index for February 10, 1940

Editorial Paragraphs

Young and Tucker Cases and Japanese Propaganda in America 371
North China Puppets and their Japanese Masters 376
On China's Financial Front ..... *By Arthur N. Young* 378
Balkan Pact Extended for Another Seven Years; Mussolini's Organ Voices Satisfaction 381

Special Articles

What Will the S.M.C. Do About the Budget Deficit?..... *By John Ahlers* 374
Wang Ching-wei's Puppet Government Now Slated to Appear in March If No Fresh Snags Appear 382
The Tale of Douglas Aircraft: Got its Start in A Barber Shop *By J. D. Bowersock* 384
Minseito Leader Challenges Japan's 'New Order' Policy, Then Resigns 387
Bloody Battles Raging in Kwangsi; Japanese Claim Pingyang Captured 388

Departments

What People Are Saying 369
Outstanding Events in the Sino-Japanese War 394
Who's Who in China 395
Men and Events 396
New Books of Interest in the Far East 399

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AMERICAN STOCK AND COMMODITY QUOTATIONS

February 5, 1940

STOCKS	*Opening*	*10.30 a.m.*
Amer. Locomotive	Unq.	Unq.
Amer. Waterworks	9⅞	9⅞
Anaconda Copper	26⅝	27
Bethlehem Steel	73½	73¼
Chrysler	80⅞	80⅞
Elec. Bond & Sh.	6⅞	6¾
Gen. Motors	52⅝	52⅝
Goodyear T. & R.	22¾	22¾
Gt. Nthrn. Rly., pfd.	Unq.	Unq.
Lockheed Aircraft	31⅛	31⅛
Mont. Ward	Unq.	Unq.
N. Y. Central	Unq.	16⅛
Texas Corp.	Unq.	Unq.
U. S. Steel	56¼	56⅝
COMMODITIES		
New York Cotton, May	10.45	10.44
New York Rubber, May	18.24 B	18.24 B
New York Hides, June	14.35 B	14.27
Chicago Wheat, May	—	96¾
Chicago Corn, May	—	55
New York Sugar, No. 4, May	—	1.54 B

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YOUNG AND TUCKER CASES AND JAPANESE PROPAGANDA IN AMERICA

JAMES Russell Young, well known American correspondent and representative of Hearst's *International News Service* in the Far East, "is liable to three years' imprisonment because he sent to newspapers in the United States—from Shanghai and other cities in China—38 extremely slanderous news items regarding the Japanese forces operating in various parts of China." This was Japan's first official announcement of the reasons for the arrest and detention—without trial—of the American correspondent, who had just returned to his headquarters at Tokyo following a trip through China. Mr. Young was arrested in his apartment and office in the Imperial Hotel at 11 o'clock in the morning of Sunday, Jan. 21. His wife, Mrs. Marjorie Young, was not molested by the police and gendarmes, although their apartment was searched and all papers and documents removed. Mr. Young came to China on Oct. 16 last and while in China visited Shanghai, Nanking, Chungking, Hongkong, Kunming, Hanoi (French Indo-China), Tsingtao, Tsinan, Tientsin, Peiping and Mukden. He returned to Japan on Jan. 6.

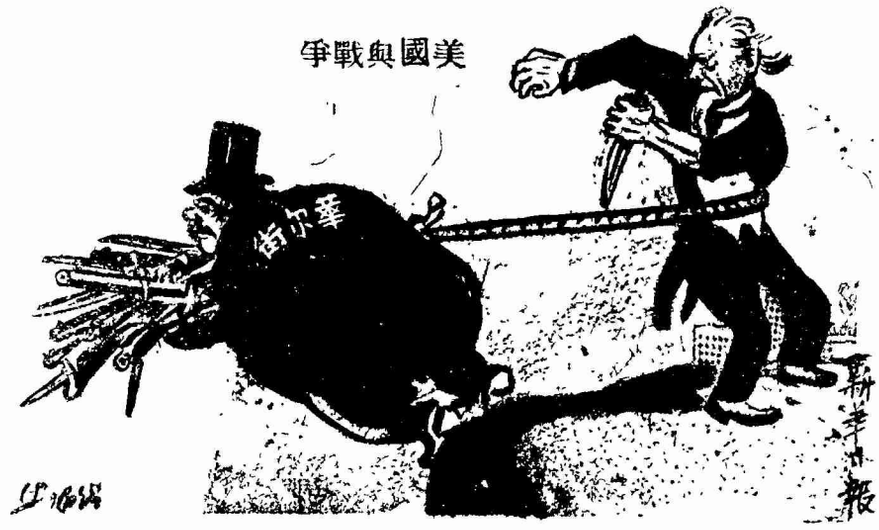
The official statement alleging that Mr. Young was subject to three years' imprisonment "in conformity with Articles 2, 3 and 99 of the Military Criminal Code," was issued by Yakichiro Suma, head of the Information Bureau of the Foreign Office. Suma was previously Consul-General at Shanghai, Counsellor of Embassy at Nanking and later First Secretary of Embassy in Washington. Suma has always been regarded as "close" to the military authorities, particularly the Kwantung branch of the Army which controls Manchukuo.

Suma's statement (*Domei* report from Tokyo, Feb. 2) said that Mr. Young's news reports had been sent to newspapers in the United States and in Japan while Mr. Young was travelling in China, but in addition to the sending of these messages he had "spread a number of fabricated rumors regarding the actions of the Japanese forces in various parts of China . . . . these rumors were circulated among many Japanese and foreigners at the Imperial Hotel in Tokyo between Jan. 6 and 19."

Mr. Suma denied that Mr. Young's arrest had any connection with the expiration (Jan. 26) of the Japanese-American Treaty of Commerce and Navigation. Mr. Suma also disclosed the curious fact that no American protest had been filed by the U. S. Embassy in Tokyo, which was contrary to reports here alleging that Ambassador Grew had not only lodged a strong protest, but had sent a representative of the Embassy to the Marunouchi police station with instructions to remain there during the period of the American correspondent's detention. The American Embassy, according to Suma, had only made "inquiries" about the case.

Mr. Young's arrest, according to a report in the *Shanghai Evening Post* (American) on Feb. 3 has aroused widespread indignation in the United States because of the Japanese contention that a newspaperman may be arrested and tried in Japan for articles which he wrote and sent to newspapers in the United States *from China*. Broadly interpreted, the Japanese military might insist upon detaining any newspaperman, lecturer or radio speaker—while visiting in Japan—for articles written or statements made in addresses anywhere in the world. Going a step further the Japanese military might even arrest any foreigner while travelling or residing in Japanese occupied territory in China, for making statements which Japanese militarists regarded as "untrue, or unpalatable." It might prevent any foreign newspaperman in Shanghai —excepting "yes" men, of course—from attending the daily Japanese press conferences held at the Broadway Mansions Hotel, which is located in the Japanese Army-controlled Hongkew section.

"Will He Cut the Rope?"



"Uncle Sam can end the war at any time by cutting the rope which binds him to the interests which are helping Japan." (Chinese paper in Chungking).

Confirmation of the contention of the Japanese military authorities that anyone may be arrested in Japan, or in Japanese-occupied territory, "for actions committed outside the territory of Japan," was contained in an *International News Service* message from Tokyo on Feb. 2. The message stated that the Japanese authorities apparently were trying "to apply this particular section of the criminal code to any citizen of any country residing anywhere in the world."

Joseph V. Connolly, President of *International News Service*, New York, telegraphed Mrs. Marjorie Young, wife of Mr. Young, predicting that Mr. Young would be exonerated of the charges made by the Yokyo authorities. Mr. Connolly stated that the best refutation of the alleged charges was in Mr. Young's reputation as a well established reporter who covered accurately and impartially news from the Far East for more than a decade. Mr. Connolly stated further that no effort would be spared

to defend Young adequately when he appeared before the Japanese Criminal Court.

The I.N.S. message, which appeared in *The China Press*, said that Article 99 of the Japanese Army Criminal Code provides that anyone who publishes or disseminates rumors about military affairs in time of war or emergency can be sentenced to imprisonment for a period of not over three years. Articles 2 and 3 stipulate charges can be applied to persons not in military services and with reference to actions "even outside the territory of Japan."

Mr. Suma, the Foreign Office spokesman, admitted that the Tokyo authorities had received numerous telegrams of protest from newspapers and individuals in the United States, but claimed that the case "was outside his jurisdiction."

METHOD OF RETALIATION

The case of Jimmy Young is the second of similar character—involving Americans—which has taken place in Japan in recent months. The Rev. Luther Tucker, American missionary connected with a student organization in the United States, had been lecturing before student groups in Japan when he was arrested on Oct. 12 on a charge of circulating "undesirable literature." The literature, which he had sent through the mail from Osaka to an American friend in Tokyo, was a Japanese translation of a book written by H. J. Timperley, an Australian newspaperman, correspondent for the *Manchester Guardian* in China. Mr. Timperley's book, which was published in both America and Great Britain, dealt largely with the Japanese occupation of Nanking and the activities of the Japanese Army following the occupation of the Chinese capital. The book had been translated into the Japanese language by a Japanese in Chungking, who is opposed to Japanese aggression, and who had already circulated several hundred copies of the book in Japan.

The Japanese military authorities were therefore quite familiar with Mr. Timperley's book and its documented (and photographed) account of atrocities committed by Nipponese troops in Nanking. But since they could not arrest the author of the book, who was in London, or the Japanese translator, who was in Chungking, they vented their wrath on the Rev. Mr. Tucker, who had mailed a copy of the book to his friend in Tokyo. The military censors in the Japanese Post Office, who were watching the mail of the American in Tokyo, reported the case to the gendarmes (branch of the Army) and Mr. Tucker was arrested. The case was obviously a trumped-up affair, but the unfortunate missionary was held in the Osaka jail, without trial, until Dec. 16—more than two months—when he was "found guilty" on a charge of "circulating undesirable literature and false rumors," and given a jail sentence of four months —which was not enforced on condition that he leave the country.

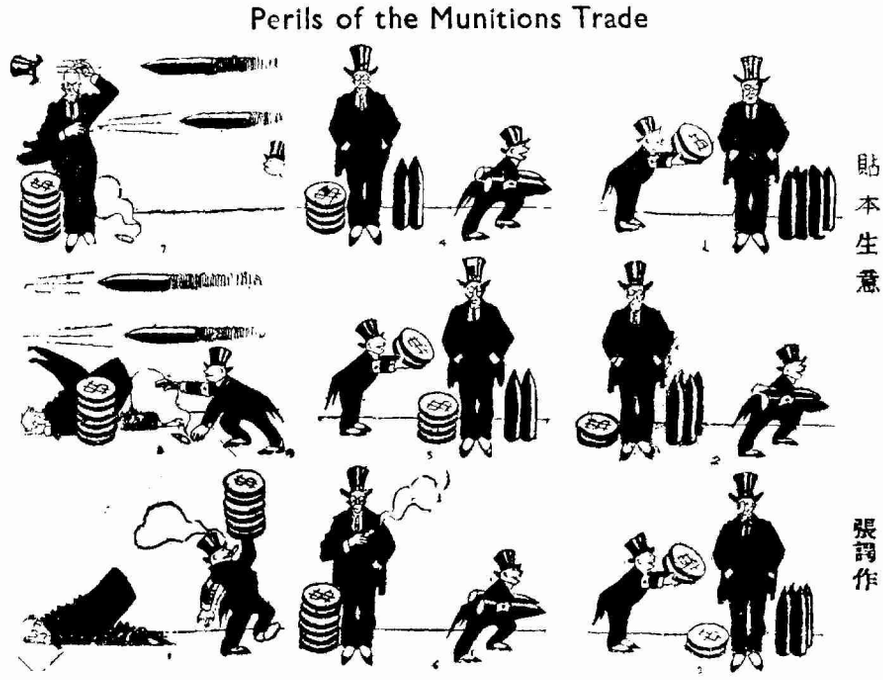
While the dispatch through the mail of the offending book constituted a technical violation of the Japanese regulations, it was generally realized that the real Japanese objective was to muzzle American missionaries—such as the Rev. Mr. Tucker —who had been lecturing in Japan and in private conferences with Japanese students and others probably had disclosed some of the facts about the Japanese Army's activities in China.

In the case of Mr. Young, he also had made a speech before a gathering of some 50 Japanese businessmen wherein he discussed, among other things, the activities of the Japanese Army in China and the results of these activities upon the relations of China and Japan and —ultimately—the peace of the world.

In any retaliatory action which the United States may decide upon in connection with these cases, there should be strict avoidance of any violation of our own laws guaranteeing the freedom of the press. It is obvious, however, that the American people cannot continue to permit the Japanese to censor, delay and interfere with American mail, private and press telegrams,—or the activities of American citizens—while at the same time permitting the Japanese to take advantage of the privileges of a free press and the inviolability of mail and telegraph, in order to circulate their propaganda in the United States or from the United States to other nations.

It was inevitable that the Young and Tucker cases would serve to concentrate the attention of the American people upon the matter of Japanese propaganda in the United States—conducted with the object of counteracting and undermining established American policy in the Orient and disrupting the long-existing friendly relations between the United States and China. It is fortunate in this connection that an investigation had already been initiated (last November) which disclosed that the Japanese had been operating an enormous propaganda machine in the United States—extending over a period of two years—and expanded on an almost unparalleled scale prior to the date of expiration of the Japanese-American Treaty and in consideration of the present congressional inquiry into the question of halting shipment of essential war materials to Japan for use in continuing her military adventures in China.

An organization, known as the Institute of Propaganda Analysis, estimated that Japanese expenditures for American propaganda amounted to between U. S. $3,500,000 and U. S. $5,000,000. The report stated, "If this was true in February, 1939, it probably is a fact that Japanese propaganda expenditures in the United States have since been expanded to U. S. $8,000,000.



Chinese cartoon from a Chungking paper, in the fashion of an American comic strip, shows (1) Upper right—Uncle Sam making his first arms deal. Reading from top to bottom and from right to left, the trade proceeds until the last episode shows Uncle Sam killed by his own munitions.

Most of the Japanese organs of propaganda, such as the so-called Japanese Institute, the Culture Bureau, the Board of Tourist Agencies, Japanese Chamber of Commerce, South Manchuria Railway, etc.—which work in the open—are now located in International Building, Rockefeller Center, New York. They occupy more than 10,000 feet of floor space and probably constitute the most expensive and ambitious propaganda effort ever undertaken.

But these organizations which have imposing names on the building directories at Rockefeller Center do not include all of Japan's propaganda organs in the United States. Governmental agencies allegedly have discovered that "underground" propaganda in the United States is conducted by a so-called "master mind" who probably directs Japanese espionage throughout the United States, the Dominion of Canada and in Mexico, Central and South America. While no official report has been made allegations are in circulation that the directing genius or "big shot" of Japanese propaganda is closely associated with Japanese naval intelligence officers who are determined to prevent at all hazards the United States from carrying out its naval defense program in the Pacific. The tentacles of Japanese naval intelligence activities even extend into American commercial and social organizations in Shanghai, according to the report.

Several months ago Congress adopted regulations requiring foreign propagandists to register with the State Department at Washington. Some complied, but numerous paid agents, including Americans both at home and abroad, have not registered and herein opportunity is provided for retaliation in connection with the Japanese action against Messrs. Young and Tucker.

Japanese propaganda methods in the United States are of two types: First, the so-called official type which can be identified with governmental or private sources and includes the sending of "good-will" missions back and forth, the erection of pavilions at World Fairs (two), dispatch of theatrical groups, dissemination of literature on cultural, economic, educational and kindred harmless subjects. Including among the "good-will" mission type is the Japanese practice of financing tours of Japan, Manchukuo and north China on the part of groups of American school teachers, editors, athletes, students and businessmen. Japanese efforts to prevent these "paid" tourists from becoming "contaminated" while travelling in the Far East often results in humorous developments.

The second type of Japanese propaganda which the Japanese do not officially recognize includes the payment of secret agents who spread malicious scandalous reports designed to blacken the reputations of Chinese officials or Americans at home or in the Far East who attempt to uphold established American policies and principles. Much of the Japanese propaganda and intrigue plays upon two well known American "fears"—fear of involvement in war and fear of communism.

One significant phase of Japanese propaganda, prominent in recent months, has been the publication and circulation of millions of pamphlets containing "trick" figures purporting to show that American trade with China is so small as not to be worth worrying about —less than the annual bill for chewing gum, cigarettes, lipstick, etc., while Japan is America's biggest non-European customer, and that America's trade with the puppet state of Manchukuo is growing by leaps and bounds since the Japanese assumed the directing hand.

Several months ago when Yakichiro Suma returned to Tokyo from Washington he stated in a newspaper interview that much of American antagonism toward Japan was due to American missionaries in China who had "lost their jobs" and were forced to return home. This statement by Suma indicated that Japan's long campaign to win over the American Protestant Church, clergy and laity, the intellectuals, labor unions and farmers had failed. Japan is now concentrating on businessmen, using methods long familiar in the Far East, including banquets and geisha parties and the offering of special inducements to "key" men and firms. Japanese propagandists are now overworking the word "realism" in their propaganda among businessmen, their object being to make such glowing promises of future prosperity as to cause businessmen to overlook Japanese military methods in the subjugation of China.

Space is not available for a complete disclosure of Japanese propaganda and intrigue in the United States and among Americans in the Far East, but, briefly, it has ten general objectives:

1—Prevent at all costs an embargo on war materials to Japan.
2—Prepare the ground for a new trade treaty, which would embrace "conquered" territory on the Asiatic Continent, giving Japan a free hand in the Far East.
3—Pave the way for a "peace offensive."
4—Prevent further American economic aid to China.
5—Neutralize American hostility to Japan's program for the conquest of China.
6—Compel the United States to scrap its traditional policies and principles and follow a "hands off" policy in Asia.
7—Defeat the boycott movement in the United States and prevent the U.S. Government from raising duties or otherwise penalizing the sale of Japanese goods in the United States.
8—Halt the American naval construction program and the U.S. defense program in the Pacific.
9—Pave the way for large American loans to Japan and Manchukuo, thus enabling the Japanese Army and affiliated commercial and industrial interests to consolidate their gains.
10—Obtain urgently needed commercial credits for machinery and other materials which Japan is now unable to obtain from her "anti-comintern" allies in Europe.

Franklin To Dairen—Phillips to Singapore!

Cornell S. Franklin, American Chairman of the Municipal Council of the International Settlement, departed on the Dairen Maru for Dairen, Manchuria, on Saturday, Feb. 3. No reason was given for Mr. Franklin's sudden decision to depart on a trip, but one of the papers printed a report stating that his trip was concerned with negotiations with the Japanese over a shipment of Mongolian racing ponies destined for Shanghai. It was alleged that the shipment had been held up or some reason. It was said that Mr. Franklin had decided to take the trip due to his well-known interest in racing and polo.

G. Godfrey Phillips, Secretary and Commissioner-General of the Municipal Council, is still absent from Shanghai on a vacation trip which included Hongkong and Singapore. Mr. Phillips also departed from Shanghai rather unexpectedly following an attempt on the part of Ta Tao gangsters to murder him as he was driving to his office along a street adjacent to the "Badlands." The attempt to murder Mr. Phillips took place on Jan. 6. Mr. Phillips departed on his vacation on Jan. 21.

Owing to the absence from the city of the American Chairman and the British Secretary-General, it was stated that substitutes would serve in their places at the next meeting of the Council, W. J. Keswick serving for Mr. Franklin and T. W. Gubb, Deputy-Secretary, in place of Mr. Phillips.

According to reports in the *North-China Daily News* and *China Press* the absence from the city of the two "key" officials, made it necessary to postpone consideration of the vital "Outside-roads" question. Triangular discussions of the issue between the Settlement authorities, the Japanese and the Chinese puppet municipality had been proceeding for many weeks. The report in the *N.C.D.N.* said the Municipal Council had reached a practical agreement with Mayor Fu Siao-en of the Chinese Municipality, but before signing the agreement, the Council was consulting various authorities, presumably members of the Consular Body. The report in *The China Press* stated that the plan for settlement of the controversy over the suburban roads provided for the creation of a new police group which would be headed by a chairman appointed by the Chinese authorities. Whether the new organ would have power to suppress the gambling, opium-smoking and other vice dens in the Badlands district was not stated.

What Will the S.M.C. Do About the Budget Deficit?

BY JOHN AHLERS

THE ratepayers of the Shanghai International Settlement will meet about the middle of April to discuss and to pass the Shanghai Municipal Council budget for the current calendar year. This budget requires some sound and hard advance thinking, if the Settlement finances are to be put back in order. Briefly the situation is this: The past year left the S.M.C. with a large deficit. The current year threatens a much larger deficit. The formerly available reserves have been spent and further borrowing from the banks is not advisable. Ratepayers will have to dig deep into their pockets and to consent to a very substantial and general tax increase.

For years and years, the International Settlement has been living happily with substantial deficits in its ordinary budget. The Sino-Japanese war and the gradual depreciation of Chinese currency increased these deficits. The 1937 deficit was $1,860,244. The 1938 deficit was $2,357,328. The 1939 deficit was officially estimated at $2,323,780, but already the first half of the past year brought a deficit of $2,414,388, i.e., almost $100,000 more than had been anticipated for the whole year. Up to that point, the deficits were bearable. In 1937 and 1938 the deficits were transferred, and it was planned to transfer the 1939 deficit to the extraordinary budget where full coverage was intended to be obtained by means of allocations from Loan Suspense Account.

The S.M.C. Loan Suspense Account technically represents the present value of future sinking fund instalments, and is intended for the servicing and redemption of outstanding S.M.C. loans. There still is the loan of 1926, which has yet another 17 years to run. Practically, Loan Suspense Account was the pool where the S.M.C.'s liquid reserves accumulated, and into which the Council dipped regularly to cover the Settlement's deficits. For the past decade, this pool was chiefly fed by proceeds from the sale to the present Shanghai Power Company of the electric power plant, formerly a municipal property of the Settlement. Instead of holding those proceeds as a reserve for bad years to come, the ratepayers preferred, nine years ago, to have their rates decreased below the minimum required by current expenditure, and to have deficits run up which were covered out of those proceeds. Thus resulted the practice of pawning Loan Suspense Account to Budget Extraordinary to an ever-increasing extent. The point has been reached now at which Loan Suspense Account no longer can provide coverage for all of the tremendously increased deficit.

It was planned to cover the originally estimated 1939 deficit of $2,323,780 in exactly the same way as the previous deficits. The S.M.C. deficit for the past year, however, was estimated six weeks ago by the S.M.C. treasurer at $6,052,160. As things look today, there is a possibility that this deficit may turn out to be slightly lower, but certainly it will not be much short of $6,000,000. The S.M.C., however, is unable to provide more than $4,000,000 from Loan Suspense Account for partial cover of this deficit, so that there will be $2,000,000 left for which no cover can be provided from reserves. As a matter of course, since 1939 is already past and the money in question already has been spent, the S.M.C. has been compelled to borrow from the banks. The International Settlement has been running, and continues to run, into unfunded indebtedness to an appreciable amount.

The chief deficit problem confronting the Settlement, however, is not the $2,000,000 uncovered deficit of the past year, but the newly-arising deficit for the current year 1940. January brought a deficit of far above $500,000. If expenditure and revenue of the Settlement continue upon the present level unto the end of this year, there is every prospect that an aggregate new deficit of some $10,000,000 will accumulate. Altogether, cover has to be provided for $2,000,000 (for 1939) plus $10,000,000 (for 1940), i.e. an aggregate shortage of $12,000,000. Since municipal rates cannot be increased prior to July 1, 1940, very substantial borrowing from the banks will have to continue at least up to that date.

Perusing details of the recent S.M.C. budget estimates and reports, an attentive investigator is likely to hit upon a series of items which lend themselves to serious criticism. Scales of municipal salaries, the percentual distribution of expenditure among the various branches of administration, and the running of some of those branches would appear to be unsatisfactory in the light of modern times. Such criticism, however, certainly would not provide oil for the lamps of the ratepayers. Any unbiased municipal expert would be quick in pointing out that the S.M.C. is doing much too little for the masses of the Settlement's inhabitants, and that it cannot do much more in that direction without the ratepayers paying much more into the municipal treasury than they do pay. Such criticism, however, would fail to meet the vital point of the present budgetary problem, the deficit, which cannot substantially be decreased by any of the desirable readjustments indicated.

There is no doubt as to the major reasons for the huge increase of the International Settlement's deficit. These reasons are the war and the currency depreciation. The latter is the chief immediate factor. The drop in the exchange value of the Chinese dollar has enormously increased the S.M.C.'s current liabilities, while the increase in revenues has lagged far behind the rise of expenditure. It is safe to say that if the Chinese dollar had remained at an exchange level of at least 8-½d., the deficit would not have been larger than the coverage capacity of the Settlement's Loan Suspense Account. The present deficit problem clearly is a case of *force majeure*, for which no one of those immediately concerned can truly be held responsible. But the deficit is a fact, and the ratepayers will have to assume responsibility and provide a remedy.

To continue borrowing from the banks would be extremely ill-advised. Such borrowing, of necessity continuing at the present time, should be stopped as early as possible, and the amounts already borrowed ought to be paid back over short terms. Running into debt on behalf of current expenditure is a sure way into bankruptcy. The Settlement should not pawn the remainder of its assets to the banks. It also is very dangerous to underwrite on behalf of the S.M.C. financial obligations in terms of foreign exchange, with the whole revenue of the Settlement forthcoming only in Chinese national currency. This simply means that the ratepayers speculate upon foreign exchange, and large additional losses may occur should the Chinese dollar drop again. Moreover, the banks may get tired of lending the S.M.C. millions upon millions.

The money to cover the deficit must be raised. Naturally, it must be raised from the ratepayers. There appear to be but two alternatives of raising the money. A lump sum might be raised, for one time only. In this direction, there are again two alternatives. The idea of a capital levy, striking as it may appear, seems

to be unable to materialize easily. There would be the great difficulty of assessment. There might be one or the other nationality refusing outright to contribute its share. The other possibility is that of a Joint Ratepayers' Loan to the S.M.C.—voluntary, but enjoying the benevolent assistance of the Consular Body. A single instance of obstruction, however, would be liable to defer interminably the realization of such a plan.

The easiest way, technically, to provide coverage for the existing deficit, and increased revenue to cope with future deficits, obviously is an increase in the various taxes and rates paid by the Settlement ratepayers. Since new items of taxation cannot be legally introduced, the old ones will have to be increased. Such an increase can be voted at the next ratepayers meeting, and can be enforced as from July 1, 1940. This easiest procedure also would be the most justified one. It would provide permanently increased revenue to meet permanently increased expenditure. It alone, of all the hypothetically possible proceedings, would live up to the requirements of sound management of public finances.

The International Settlement's present annual revenue totals approximately $30,000,000. Current annual expenditure is about $40,000,000, if not higher. There will be an unfunded deficit of some $7,000,000 by the middle of this year. From these figures, it is clear that a very heavy increase of municipal rates in the International Settlement is bound to come. An increase of even 30 per cent clearly would not be sufficient to meet the S.M.C.'s present financial requirements. Such a rate increase would have to be a general one, to be levied upon all items of municipal revenue and upon all categories of ratepayers. If some items of revenue or groups of ratepayers escaped additional taxation, the others would have to be taxed more heavily.

All over the world, and through all ages, taxpayers have complained bitterly whenever requested to pay higher taxes. It is but natural that there will be much complaint on account of increased taxation also in Shanghai's International Settlement. We must not forget, however, that Shanghai always has been a very lightly taxed city. Local municipal taxation rates are extremely low, and will remain so, as compared with other big cities. Besides, the bulk of the local ratepayers either do not pay, or pay but very low national taxes to their respective countries. They also enjoy the extraordinary advantage, very rare now elsewhere, of running this Settlement themselves. They get returns fully corresponding to their outlay in the form of taxation. They will remain much better off, as regards taxation, here than in most other cities also after the sharp tax increase due as from July 1, 1940.

The S.M.C. has very strong arguments in favor of a substantial rate increase, and it is difficult to see how ratepayers can reasonably refuse to pay higher taxes. But the S.M.C. would be well advised to prevail upon the municipal administration to produce for 1940 a budget plan incorporating financial reforms and readjustments which have become an urgent necessity. Only such reforms and readjustments will make the rate increase case for the Council truly ironclad. If the S.M.C. neglects to present the ratepayers with definite proposals in that direction, it will expose itself to severe criticism.

Shanghai public opinion appears to be agreed that salaries and allowances granted to higher officials of the Settlement administration, as well as pensions given to retired officials, are too high. Shanghai public opinion seems to resent, in particular, the linking of salaries, allowances and pensions with foreign exchange. The International Settlement's revenue is entirely in local currency, and the drop in the exchange value of that currency has greatly increased the financial burden represented by the exchange obligations to higher officials. A readjustment of these exchange obligations is due. It would be reassuring also to know that, in view of the exchange situation, the Settlement's administration will not enter upon additional obligations in exchange to any of its officials at the present time. The Settlement's financial future should not be endangered to secure the futures of its officials.

Finally, the social aspect of the pending rate increase has to be carefully considered. There is no doubt that the propertied strata of the Settlement's population can bear, without much difficulty, a substantial rate increase. On the other hand, there is no doubt that as a result of the war and the currency depreciation the living standard of the masses has been lowered considerably. Shanghai big business can well provide an additional $10,000,000 annually for the Settlement's administration. Hundreds of thousands of Shanghailanders, however, are much too hard pressed to be able to pay a rate increase. The domestic budget of countless Chinese families, in particular, threatens to be overthrown if they are charged an additional $2 or $3 on account of land or other tax increases. The ratepayers would be well advised, therefore, not to drive the masses of the population into despair by attempting to charge the inevitable rate increase to tenants, consumers, etc. Big business and landed property ought to bear the tax increase. Their recent profits have been high enough to afford it.

Ghost of Anti-Comintern Pact Flits Briefly Across the Stage

THE "Anti-Comintern Pact," an instrument which bound Germany, Italy, Japan and Hungary in a nebulous ideological union against Communism, but which formed a screen behind which the states concerned coordinated important phases of their foreign policies, received its death-blow when Chancellor Hitler and Dictator Stalin embraced each other in August of last year. When the second world war broke out a few days later, with Italy and Japan signifying their neutrality, it was clear that the Anti-Comintern Pact was as dead as Queen Anne.

Japan had banked considerably on this Pact. It had served for a long time to keep Britain and France so occupied in Europe as to give the Island Empire a more or less free hand in the Far East. It was not strange, therefore, that the Anti-Comintern melody should have lingered on in the minds of Japanese statesmen.

On Jan. 24, Japanese diplomatic representatives in Europe gathered in Budapest for a four-day conference and the ghost of the Anti-Comintern Pact appeared fleetingly on the political stage. Exactly what the diplomats discussed has not been disclosed, except for a report by *Domei* saying that they talked about Germany's alleged desire to see closer relations between Japan and Soviet Russia and an improvement of Japan-Reich trade relations whereby Germany would secure greater supplies of Japanese silk fabrics.

The ghost appeared when the conference was over, making its appearance on the pages of the Tokyo *Asahi Shimbun*. The paper reported on Jan. 29 that at a conference in Rome with the Japanese ambassador, Count Ciano, the Italian Foreign Minister, suggested that if because of the Soviet-German rapprochement Japan was dissatisfied with the Anti-Comintern Pact, a new grouping of Anti-Comintern powers might be formed.

This story brought denials both in Tokyo and Rome. The Foreign Office spokesman in Tokyo, according to *Reuter*, declared: "There is no official information on the matter, but no new Anti-Comintern Pact is in our minds, nor is it intended by Japanese ambassadors in Europe." And Count Ciano himself, according to a *Domei* message from Rome, denied that he had made any suggestion for a new anti-Comintern axis prior to the Budapest conference of Japanese envoys.

This laid the ghost. The Anti-Comintern Pact is really dead and there will never be another. This does not mean, of course, that the partners in the defunct axis, or at least some of them, will not band together and join with other powers for a "holy war" against Soviet Russia some time. Such a development is not at all unlikely. A war of that kind would not be an ideological war against Communism, however, but a war in which the material stakes would be very carefully calculated.

North China Puppets and their Japanese Masters

The following is an extract from a pamphlet entitled "Japan's Puppets on the Chinese Stage" issued by the American Information Committee in Shanghai. It describes the puppet regime in North China, headed by Wang Keh-min, and known as the "Provisional Government." The information it affords is especially interesting in light of the recent Tsingtao conference at which Wang Ching-wei attempted to advance his plans for establishing a central puppet regime. Wang Keh-min, also representatives of the "Reformed Government" at Nanking and the puppet Mongolian administration, attended. Although, after Wang Ching-wei has formed his central government, the "Provisional Government" will be converted into a "North China Political Affairs Committee," it is generally expected that it will remain independent of Wang Ching-wei's administration, but completely subject, as at present, to the Japanese Army in North China.

IN the general scheme for Japan's conquest of China, North China has occupied a special position, which has greatly added to the difficulties of the various governments that have been in power in Japan since the beginning of the "China Incident."

Ever since the seizure of Manchuria the Japanese have been constantly changing their policy with regard to North China. One moment it was to become a completely autonomous state, consisting of the five northern provinces, to be called "Huapeikuo" (State of North China); and the next, it was to have no separate existence of its own, but was to be incorporated in a federal government for the whole of China. This continual alternation of policy is a reflection of the struggle that has been going on behind the scenes between two antagonistic sections of the Japanese Army. The policy of federation was sponsored by the more moderate section, who are still amenable to the orders of the Tokyo Government. The separatist policy was the pet scheme of General Doihara, at that time chief of the Special Service Section of the Kwantung Army, and has been fully endorsed by his successor, General Kita, both with the backing of the extremist group of younger officers.

Already in 1936, when General Sung Cheh-yuan was at Peking as head of the semi-independent "Hopei-Chahar Political Council," an attempt was made to get him to declare the complete independence of the five northern provinces from the rest of China. The movement, however, failed at that time, owing to widespread Chinese opposition.

After the occupation of Peking by the Japanese Army in the second week of August, 1937, a local provisional council was set up under the chairmanship of the eighty year old General Chiang Chao-ts'ung, who once, some fifteen years or so ago, had been Prime Minister for exactly one week. By December, the capitals of all five northern provinces having been occupied by the Japanese, the thoughts of the separatists once more turned to "empire-building," and great propaganda was made for the independent state of Huapeikuo.

The Japanese armies operating in Central China had, however, reached Nanking much earlier than had been generally expected. It was known to the military clique in North China that, as soon as the capital had fallen, General Matsui, the Commander-in-chief in Central China, intended to set up a new central government for the whole of China. In order to forestall this move, the North China group suddenly dropped their separatist plans, and on December 14 inaugurated at Peking the "Provisional Government of the Chinese Republic." The Japanese troops had entered Nanking on the previous day. It will be noted that there was no mention of North China in the title of this new government; it was obviously created merely as an afterthought in order to put a spoke in the wheel of the Japanese army on the Yangtze. For it is an interesting fact that, right up to the night of December 12/13th, i.e. within thirty-six hours of the formation of the new government, the city of Peking was still placarded with posters calling for "North China for the North Chinese!" General Chiang Chao-ts'ung assumed temporarily the functions of head of the new government at Peking, assisted by some members of the old Anfu Party. Not very long afterwards, he was replaced as chairman by Mr. Wang Keh-min, who had been councillor at the Chinese Legation in Tokyo from 1902 to 1907, and had a good knowledge of Japan and its people. He was later Minister of Finance in various governments (also during the time of the Nishihara loans), and afterwards engaged in banking. He was over sixty at the time, and had never been a member of the Kuomintang.

In governing circles in Tokyo it was generally believed that the loss of the capital, Nanking, would "bring General Chiang Kai-shek to his senses." And Prince Konoye, it is said, was anxious to liquidate the "China Incident" at that time and prevent it from spreading, by coming to terms with General Chiang on the basis of a semi-autonomous North China under Japanese vassalage. The negotiations that were opened for this purpose failed, however, owing to the refusal of the Chinese to renounce any part of their sovereignty and to the exorbitant demands of the Japanese Army. Thereafter Tokyo never again reverted to the idea of an independent North China.

In the early months of 1938 the main cities and lines of communications in North China had all fallen into Japanese hands. To all outward appearance North China was completely subjugated, whereas in Central China heavy fighting was still going on. The separatist party, regretting their hasty step in setting up the "Provisional Government of the Chinese Republic," turned once more to the idea of forming an independent state. But Wang Keh-min was not considered by them as of sufficiently heavy metal for the job. Looking for a more suitable figure-head, they discovered one, as they thought, in the person of Marshal Wu Pei-fu, the famous warlord of the Twenties and bitter enemy of the Kuomintang, who was living in retirement in Peking, studying Buddhism and writing poetry.

With their usual lack of consideration for the feelings of their own tools, the Japanese military opened negotiations with Wu, right under the nose of Wang Keh-min. Wang was made to call

His Master's Voice

China Today, N. Y.

on the Marshal in order to persuade him to take on the job, that Wang himself might have hoped to get. All in vain. Not that Wu was averse to becoming head of a government in opposition to General Chiang and his enemies of the Kuomintang; but he was not prepared to be a puppet of the Japanese. He formulated his own terms: withdrawal of Japanese armed forces from his territory and a completely free hand in all matters pertaining to the army, finance, and foreign relations. These terms the Japanese Army could never concede, doubtless much to the secret relief of Wang Keh-min. But the Japanese are a persistent people, and they never lost hope right up to the end. And there was a constant exchange of official Japanese assurances and denials by the Marshal. For he was just as determined as they, and until his death in December, 1939 refused to budge from his position.

Meanwhile, in December 1938, after the fall of Hankow and Canton, Wang Ching-wei had fled from Chungking, intending to throw in his lot with the Japanese and set up a government of his own in opposition to Chiang Kai-shek. Nothing could have suited Tokyo better. Any idea of a separate North China was now severely frowned on by Tokyo, lest it discourage this new puppet. It had originally been planned to establish in Central China branches of the Hsin Min Hui (New Peoples' Association), a special North China creation for the spread of the doctrines of the "New Order in East Asia." This idea was hastily dropped, and, instead, it was proclaimed that the "Reformed Kuomintang" of Wang Ching-wei was to lead China into the new paradise.

With the fate of Wang Ching-wei's movement we are not here concerned, other than to record that the hostile attitude of the Japanese military clique in North China was to be one of the main obstacles to its success. Wang Keh-min was called south to meet Wang Ching-wei and discuss with him the question of dissolving the Provisional Government in Peking and amalgamating

it with the proposed central regime. Nothing whatever came of these discussions. On the contrary, in the course of several statements to the Press during 1939, Wang Keh-min indicated with considerable frankness that they in the North intended going their own way, whatever government might be set up for the rest of China. It was, of course, not really Wang Keh-min speaking, but General Kita and his clique of "Younger Officers," among whom the idea of a completely independent North China once more held full sway. They were no longer interested in the "China Incident," nor even in the military operations that were still in progress in the south. Having got their hands on North China, they meant to keep it and develop it for their own advantage at all costs. Their idea of North China is now that of an entirely independent dominion, whose development is to be pushed ahead at the expense, not only of the people of China, but also of the people of Japan.

It would be of little interest to give the names of the present personnel of the Provisional Government. They are all little known, uninspiring persons of the old official class who, having lost their jobs when the Nationalists took Peking in 1928, had joined that large band of disgruntled ex-officials whose sole aim has ever been to get back into political life at any price and come near to the till once more. The majority of them have lived in Japan at some time or other, and most of them are well over sixty. They are mere puppets dancing at the end of wires held by Japanese militarists, ancient figure-heads who have nothing whatever to say as to the policy or development of their country.

Japan Plants a Puppet

China Times, Chungking

But although they have nothing to say in important matters, in private and personal affairs, such as their salaries, or the appointment of their friends and relations to subordinate posts, they adopt, strange to say, a quite independent attitude towards their Japanese masters. This they are able to do, knowing full well that the Japanese have the greatest difficulty in finding any educated persons at all to work with them and are, therefore, not likely to get rid of them over minor questions. These "leading Chinese" puppets do not lead a very enviable existence; they are regarded with contempt by their own people, who speak of them in the most disparaging terms behind their backs, and their social life is restricted to their own immediate circle. Worst of all, the constant threat of assassination by bullet or poison or of the kidnapping of members of their family, hangs over their heads like the sword of Damocles, making their life a veritable nightmare.

The difficulties that the Japanese have met with in finding suitable candidates for the higher government posts in the larger and pacified centers, such as Peking and Tientsin, are as nothing compared with those they have experienced in finding men for administrative posts in the up-country districts. Here the personal danger is very much greater, owing to the activities of the guerrillas and the uncertain movements of Japanese military operations which may, at any moment, necessitate the evacuation of a garrison from some distant city. Many are the cases reported of vengeance perpetrated on Chinese officials working with the Japanese, who have had the misfortune to fall into the hands of the guerrillas. As a result, in selecting officials for up-country work the Japanese have not been able to be too particular and have often had to appoint notorious local bullies and other bad characters. This, however, does not usually work out to their advantage. For this type of gentry are acquainted with all the tricks of the trade and generally seek to re-insure themselves by working in with both sides. Many instances are known where the Japanese-appointed local official actually hands over part of the local taxes to the guerrillas or keeps them informed of the movements of Japanese troops, thus buying immunity for himself. For these reasons, the administrative activities of the puppet government in the interior are purely nominal, and their writ scarcely extends outside the larger cities along the railway lines. It may be imagined that, with such an administration and such a weak hold on the country districts, the influence of the puppet government over the masses in North China is practically nil. The so-called development that is going on is, in actual fact, nothing more or less than the exploitation of the Chinese people by their Japanese conquerors in their own interest.

The strangle-hold of the Japanese on the economic resources of North China is complete: the railways are operated by the North China Transportation Company, a subsidiary of the South Manchuria Railway Company; public utilities, power plants, heavy industries, mines, bus companies, tramways are controlled by the North China Development Company, a huge Japanese octopus with a number of subsidiaries; air-traffic is maintained by the Hsin Chung Kung Ssu (New China Corporation), a Japanese concern founded in 1936; the Customs receipts are deposited in the Yokohama Specie Bank which also acts as foreign exchange agent for the Japanese-created Federal Reserve Bank.

Seeing that it has no voice in the management of affairs, the Puppet government cannot be held directly responsible for this barefaced exploitation of the Chinese people. But in so far as its members have knowingly lent themselves to the Japanese plans, in so far must they take a large share of the blame for the present state of affairs.

If Chinese interests are being neglected and actually suppressed since the establishment of the puppet government, foreign interests have not fared better. They are hampered not only by the Japanese monopolies on transportation, finance, and trade channels but also by the difficulty of maintaining any kind of contact with the authorities. When complaints are made, the complainants are often referred by the Japanese military to the Puppet government, and by this back again to the Japanese. Nobody is responsible. The anti-British movement, which has been stirred up by the Japanese, and the resulting expulsion of British missionaries from North China is a case in point. When the missionaries protested to the local Chinese officials, they were told privately that they, the officials, did not approve of their bad treatment but that they were powerless, and were advised to address themselves to the local office of the Japanese gendarmerie. The latter, when approached, declared in turn that they were unable to give any assistance, as it was a purely Chinese, spontaneous movement with which they could not interfere without infringing on Chinese sovereignty.

It is generally recognised by foreigners of all nationalities that the anti-British movement, which is directed with quite especial virulence against missionary, educational, and medical institutions, is merely the thin end of the wedge. The same fate, in the long run, awaits all foreign interests, the plain fact being that Japanese policy is to drive every kind of foreign activity, both commercial and philanthropic, out of North China as completely as, or even more completely than, they have succeeded in doing in "Manchukuo."

Two tendencies, anyhow, seem perfectly clear so far as the Japanese there are concerned. First, the policy of an independent North China has now gained the day, for good and all. Even in the most unlikely event of the Japanese military clique there agreeing to come in with some kind of new central government, the inclusion would be purely nominal; in all matters of importance, such as flag, finance, economics, and foreign relations North China will remain completely independent. Second, the Puppet government will not gain any more power in the future, though it will doubtless be retained as a useful facade behind which its Japanese masters will continue to exploit the country in their own interests, in the comforting belief that this facade is deceiving both the Chinese people and the Foreign Powers as to the true conditions in North China.

Head of Russian Fascists Returns from Trip to Manchukuo

N. I. Karganov, recently appointed chief of the Shanghai branch of the Russian Fascist Union, has returned to Shanghai from a trip to Harbin and other points in Manchuria, including Mukden and Dairen. While in Manchuria he made a special study of work being conducted among Russian youths. Mr. Karganov stated in a report issued after his arrival here that he had also spent considerable time at the town of Tiamusi near the Soviet border. He said that the status of Russian emigrants in Manchuria had not been affected "in the slightest" by the recent discussions between Japan and representatives of the U.S.S.R. It previously had been rumored that the U.S.S.R. had demanded that anti-Soviet groups among the emigres be suppressed and the leaders turned over to the Soviet authorities. Mr. Karganov cited, as evidence of friendliness on the part of the Japanese Army authorities, that Gen. Hata, head of the Japanese military mission in Manchukuo, recently had given a banquet to representatives of the Russian emigre groups.

The Russian Fascist Union was organized several months ago by Japanese Army officers, chiefly connected with the Kwantung group which controls Manchukuo. There are branches in Tientsin, Tsingtao, Shanghai and other places where there is a sufficient number of Russians who are opposed to the Soviets. The Shanghai group previously published a newspaper in Hongkew.

On China's Financial Front

BY ARTHUR N. YOUNG

Foreign Affairs, N. Y.

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FOR many years following the disappearance of the old Manchu Empire in 1911 the growth of any real central authority in China was impeded by the country's lack of fiscal resources. The successive governments in Peking were unable to finance the essential services of the state properly, and were weak and ineffective. But the National Government which was set up at Nanking in 1927 succeeded to a remarkable degree in developing an adequate financial system. This fact—added to the vigor, leadership and wide appeal of the Nationalist movement—enabled that Government to make rapid progress in rehabilitating China. And in the future, as in the past, we may be sure that finance will play a major part in shaping the course of events in China.

I. A DECADE OF PROGRESS, 1927-37

The attainment of tariff autonomy in 1928-30 tripled China's revenue from customs. This, together with the rehabilitation of the salt revenue administration and the development of a system of internal taxation on such things as tobacco, cotton yarn, flour, liquors and mineral products, increased the total revenue from customs and these other sources from $369,000,000 in 1929 to $618,000,000 (Chinese currency) in 1931. The needs of the new Government, however, were too urgent to be met wholly by developing tax revenues, a matter of months and years. It was equally important that the market for public loans should be developed, in order to obtain funds needed for defense against subversive movements and for internal economic reconstruction. This was facilitated by the growth of the Government's revenues and by the rise of modern banks, notably at Shanghai, which was becoming one of the world's great financial centers. Although there were deficits every year from 1927 to 1937, it was possible to keep them within manageable limits. Even though the budget had not been balanced by 1937, when the present conflict broke out, substantial equilibrium was by then in sight.

A reform of the currency was an essential prerequisite to real progress. In 1929 the Kemmerer Commission stated that China had "unquestionably the worst currency to be found in any important country of the world." Nevertheless the medium of exchange was gradually becoming more uniform through the increasing use of the silver dollar and dollar bank notes. The abolition of the *tael* as a standard of value in 1933 established the dollar system throughout most of China. There remained, however, the highly difficult problem of the silver standard.

Unquestionably China's adoption of a managed currency in November, 1935 was a major event in the recent history of the Orient. This reform created a foreign exchange standard by which the Chinese dollar was to be maintained at about 29½ cents (United States currency) and 14½ pence sterling, by means of exchange operations on the part of the Chinese Government banks. Silver was to be nationalized and a fiduciary currency substituted. And the Central Bank of China was to be converted into a Central Reserve Bank. The reform was facilitated by the helpful action of both the American and British Governments. The latter issued an Order in Council prohibiting British subjects in China from making payments in silver. The American Treasury bought a substantial amount of Chinese silver; and this and subsequent purchases have been an indispensable aid to China in carrying out the scheme and in maintaining the exchange value of her currency. Meanwhile a decimal system of nickel and copper coins was introduced, supplanting the old heterogeneous coins.

In this way China acquired essential elements of a modern currency system, linked at a favorable level with the systems of the Western countries and Japan. But this was not all. China increased her financial strength very materially in other ways. Most of the silver was removed from the coast cities, where it was vulnerable to seizure, and converted into gold and bank balances abroad, where they were available to make foreign purchases and to support the currency. The stabilization of exchange at a level adapted to the country's needs led to a favorable balance of payments, so that large amounts of foreign exchange were bought and added to currency reserves. Moreover, the transition from a metallic to a fiduciary currency was effected smoothly; and this made it possible to expand China's currency and credit if necessary in an emergency. The heavy outlays required by the hostilities could not have been financed on a hard money basis; and under conditions as they existed, a transition from the silver standard to a paper currency could scarcely have been made without a serious shock to confidence. All these developments provided effective resources and financial machinery without which China's stubborn resistance to Japan's attack would not have been possible.

Economic reconstruction required foreign capital; but large-scale foreign investment was impossible so long as a large part of the old debts of the Peking regimes remained in default. The National Government took this problem in hand, and by July, 1937 had made settlements covering most of the amount in arrears. These settlements, in conjunction with the other financial policies of the National Government, caused a notable improvement in the quotations of Chinese loans: in mid-1937 several leading issues were quoted on the London market at par, or even above, and yielded less than five per cent. China's credit was becoming such that a large influx of foreign capital was in prospect to finance the vast reconstruction work so sorely needed.

Interrelated with all these developments was the marked improvement which took place in China's internal political situation. By mid-1937 the National Government apparently had ended any serious challenge, from either local warlords or Communists, to its program of establishing a moderate regime on a nation-wide basis.

"Plenty of Gold!"

This Chungking cartoon (China Times) quotes the Japanese spokesman as saying that Japan possesses plenty of money, the largest army and unlimited support of her people. But the money bag is empty!

The Japanese military caste, it seems clear, attacked China in the summer of 1937 precisely because China's strength was growing so rapidly.

II. CURRENCY AND EXCHANGE SINCE THE BEGINNING OF HOSTILITIES

When the armed conflict broke out in North China on July 7, 1937, the Central Bank of China was in a strong position. Ever since the reform of November, 1935 the Chinese dollar had been stable, the Central Bank having enhanced confidence by meeting without difficulty a number of raids on the currency. An immediate effect of the July 7 affair was a flight of Chinese funds abroad, a movement which continued during the uncertainties of the next five weeks. The outbreak of fighting at Shanghai on the morning of Friday, August 13, 1937, precipitated a financial crisis, and a bank holiday till the following Monday was declared. Emergency measures had to be worked out amidst the turmoil of nearby fighting. To prevent a run on the Chinese banks and to check the flight of capital, the Government restricted the withdrawal of deposits. A limited quantity of blocked currency—*wei wah* —was created, comprising bank funds usable only for transfer and not convertible into cash. By this means a general moratorium on payments was avoided. Such special regulations, however, could not be applied to the foreign banks, because of the regime of extraterritoriality and because of the existence of foreign settlements and concessions. A gentlemen's agreement therefore was made with the foreign banks to the effect that they would sell exchange only for legitimate trade and personal requirements, and would not accept new accounts or any material increase in the old accounts of Chinese customers. With these measures in force, the markets were able to reopen in an orderly manner on Monday, August 16.

These steps checked the flight of capital and tightened the money market, and during the ensuing autumn exchange rates held steady. It was realized, however, that a renewed demand for exchange would soon appear, due to the lag in demand for import exchange. The technical position was this: the Shanghai fighting had largely stopped trade, but the exchange derived from exports already shipped had been sold in the market, whereas many of the

imports had been financed on credit and the exchange had yet to be bought. As expected, this demand began to materialize about November 1. After running at a substantial figure for some weeks it steadily fell off, and by mid-February was drying up.

At this juncture the Japanese announced the creation of a puppet bank for North China—the so-called Federal Reserve Bank—to open in March and to issue notes for circulation in that area. As a countermeasure the Government decided to withdraw its direct support from the general exchange market, and instead to grant weekly allotments of foreign exchange to meet legitimate demand. At first, round sums were granted to the banks; but shortly thereafter allotments were made only after considering specific individual applications for legitimate import and personal requirements.

Because of lack of full jurisdiction over foreigners and in the foreign settlements and concessions, and in view of the extent of the areas affected by Japanese interference, the Chinese authorities were not in a position to apply general measures of financial control such as other countries have put in force. The system of exchange allotments was adopted as the best available substitute. By this means the open market rate of exchange was left free, and through adjustment of the amount of exchange allotted in the light of actual market conditions, the rate was allowed gradually to fall to about 60 per cent of the level prevailing before the conflict without seriously impairing confidence in the currency.

"Justice"—And Arms Orders

Hsin Hwa Jih Pao

"Uncle Sam talks about justice but continues to sell arms to Japan."

As soon as it appeared that intervention in the market could be effective, operations were cautiously begun to stabilize the open market rate. Though these operations were successful, it was apparent that still greater resources were required. In the spring of 1939 it proved possible to arrange with the British Government on favorable terms for the creation of the Sino-British Stabilization Fund of £10,000,000. Chinese and British banks contributed to it in equal proportion.

From the outset the Fund had to face difficult conditions. In April, 1939 the Japanese announced the creation of the Hua Hsing Commercial Bank at Shanghai as a bank of issue for their puppet regime in Central China. This announcement caused disturbances on the market which continued through May. Meanwhile an adverse balance of payments had been developing, and early in June the Fund temporarily withdrew support and allowed the rate of exchange to drop about 20 per cent. Before confidence could be restored, the Japanese announced the blockade of the Tientsin concessions; they also declared their intention of preventing the circulation of Chinese currency in those concessions and of taking over the North China silver reserves. Such nervousness developed that the Fund was confronted not only with exchange difficulties but with a run on the banks. During the latter part of June the strain became so great that fresh restrictions on withdrawals from Chinese banks had to be imposed. The restrictions temporarily tightened the market, but by the latter half of July the pressure had again increased to such an extent that the authorities had to permit the exchange rate to fall still lower.

This time stability was longer in returning. By the middle of August, however, the market had become quieter and steadier, and the prospect materially improved. The outbreak of the European war started a repatriation of Chinese funds from Europe. This movement, plus the fact that exchange rates had swung so low as to be considerably out of line with China's internal conditions, caused a rise in the Chinese dollar during the fall of 1939. In mid-November it stood in Shanghai at about 9 cents (U. S.) and about 5¼ pence sterling.

In North China the Japanese have forbidden the use of Chinese currency in the areas they control, chiefly the leading cities and the railway zones. In those regions the "Federal Reserve notes" of the puppet bank circulate: their actual market value is sometimes below and sometimes above that of the Chinese currency. In the Tientsin concessions the Chinese currency circulates, and also in the extensive areas of North China where the Japanese occupation does not extend and where the puppet notes are forbidden. In the "occupied" areas of Central and South China, the circulation consists of Chinese currency but includes some yen and military notes forced out by Japanese troops. About three million notes (with a nominal value of 6 pence) of the puppet "Hua Hsing Commercial Bank" circulate, chiefly in the Hongkew district of Shanghai.

Free exchange rates are much more sensitive to disturbing influences than general prices, and the level of internal prices in China has not risen in anything like the proportion in which exchange has fallen. Prices in particular cities are not typical of the entire country since they are affected by local influences—in coastal cities by Japanese interference with normal trade and the large use of imported goods, and in some of the larger interior cities by the Government's abnormal demand for supplies and labor. Throughout a wide area prices of many important articles of consumption have risen little or not at all. Though no accurate estimate is possible, a good guess is that throughout China the average of prices has gone up by around 60 or 70 per cent. Fortunately for China, several years of excellent crops (except recently in North China) have mitigated the hardships resulting from the Japanese invasion.

China's maintenance, despite Japanese interference, of a free exchange market in which legitimate business can be conducted has benefited both her own and foreign interests. The substitution of a Japanese-controlled monetary system in the "occupied" areas would mean setting up a closed economy in which foreign trade could be carried on only on Japanese sufferance.

III. PUBLIC FINANCES

China's public finances have suffered severely from the seizure and destruction of her sources of revenue by the invading forces. The Japanese occupation of one port after another has deprived the Government of the greater part of its customs revenue. Important salt-producing areas have been invaded, thus interfering with its salt revenue. Income from other internal taxes has fallen off, since they were collected largely along the seaboard.

The Chinese Government has been unable to replace these losses by new taxation, not only because Japan has occupied so many important cities, but also because China has not yet developed a relatively productive system of direct taxation. Elasticity of tax yield is hard to obtain even under the most favorable conditions, and especially when indirect taxes form the main source of revenue. China only recently began to introduce income, inheritance and profit taxes; though these have been extended during the hostilities, their yield could meet only a small part of China's present great needs.

The Chinese Government has thus had to borrow large sums, beginning with the Liberty Loan of $500,000,000 (Chinese), issued in the early weeks of the conflict. The total amount of the loans authorized up to November 1939 was about $2,800,000,000 (Chinese). The numerous Chinese living overseas—in the United States, the Philippines, the Straits Settlements and elsewhere—have generously subscribed to these bond issues, and have also made substantial patriotic donations.

The borrowing program has been smoothly carried out with the cooperation of the banks. Fiscal theory recommends that extraordinary wartime needs be financed largely out of revenue; nevertheless, experience has shown that where this is not possible the emergency can be met for a considerable period by relying largely upon borrowing. China's borrowing, however, has considerably increased her bank-note circulation and deposit credit. The note issue of the four Government banks, plus that of the Canton area (which was taken under the wing of the Government shortly before hostilities began), grew from $1,643,000,000 to $2,866,000,000 (Chinese) from the end of June, 1937 to the end of June, 1939, according to the latest published figures. A part of this increase represents the substitution of notes for silver coins and the purchase of gold within China.

IV. DEBTS

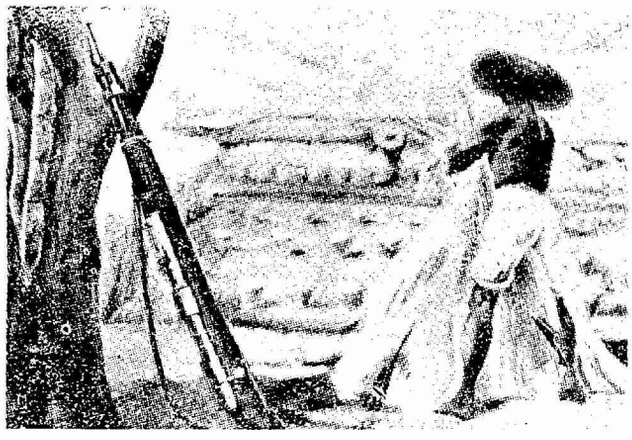
In a world where disregard for international obligations is becoming ever more widespread, China's foreign debt record in recent years has been exceptionally good. The National Government, soon after it came into existence, undertook to settle the debts in arrears inherited from the old Peking regimes. After unsuccessfully trying to arrange a general settlement with all its creditors, it embarked on a program of negotiating with them individually. Despite many difficulties, arrangements were effected for the resumption of payments on most of the bond issues in arrears at terms which reflected both China's desire to pay in accordance with her capacity and the reasonableness of the creditors. By mid-1937 the Government had negotiated settlements of debts totalling about $850,000,000 (Chinese), or around $250,000,000 (U. S.). About two-thirds of the total value of claims arising from loans were thus settled, including nearly all of the publicly issued bonds. Had peace and economic improvement been allowed to continue, an understanding about remaining unsettled items would doubtless have been reached in due time.

After July, 1937 the course of events gradually affected the debt situation. By 1937 the Chinese Government was paying the Japanese portion of the Boxer Indemnity into a special account (in pounds sterling) in a neutral bank, to be held for future disposition. Dur-

ing the fall of that year efforts were made to devise some scheme whereby customs revenue might continue to be applied to debt service despite Japan's seizure of the ports. No such scheme had been agreed upon, however, when in October the Japanese forced the Commissioner of Customs at Tientsin to deposit collections in the Yokohama Specie Bank under conditions which made it impossible to use them for debt service, unless perhaps on terms which the Chinese could not accept. When Shanghai was captured in November, 1937, collections there were similarly tied up; and the process was repeated as other ports fell into Japanese hands.

The object of the British Government in negotiating a customs agreement with Japan in the spring of 1938 was to maintain, so far as possible, the historic Chinese customs service and to provide a basis for continued service of China's debts despite hostilities. The best terms to which the Japanese would agree included the deposit of collections in Japanese banks, and payment to Japan of past and future installments of her share of the Boxer Indemnity. They also insisted that the proportionate monthly contributions, which according to the agreement were to be made by the occupied ports for China's debt service, should cover only foreign, not domestic, loans (only those were involved that were outstanding

Production—Resistance



China Defence League Bulletin

before hostilities). Further, the entire burden of providing foreign currency for the debt service would have rested upon the Chinese Government, despite Japan's interference with its currency.

Affirmative action by the Chinese Government was necessary before this agreement could become operative. The Government, however, was not prepared to implement the agreement on these terms; and despite prolonged efforts to find a formula, it was not put into effect. Nevertheless, the Government duly continued service of the debt in spite of the fact that the Japanese were detaining considerably more than half of the pledged customs revenue. The shortage of collections was made good by advances to the Inspector-General of Customs from the Central Bank of China, advances which by January, 1939 totalled $175,000,000 (Chinese). In addition, the Chinese Government provided all the foreign exchange required for debt service.

Clearly this situation could not go on indefinitely. In January, 1939 the Chinese Government very reluctantly announced that it could no longer continue to advance funds for service of interest on issues; and in March, 1939 this policy was extended to salt-secured issues. Nevertheless, since then the Government has been setting aside in the Central Bank of China—in Chinese currency—a share of the long-time debt service.

To have kept up the service of her external bond issues for over eighteen months after the larger part of the pledged revenues had been seized, and in spite of the tremendous strain which the war placed on the country's most important productive areas, has been for China a worthy accomplishment, one which its creditors abroad will not soon forget. This is a bright spot in the recent record of debtor countries.

V. THE FUTURE

The Japanese invasion came at a time when China was completing a decade of rapid internal progress. On the record, the Japanese cannot rightly pretend that they invaded China in order to improve conditions. Their slogan—the "New Order in East Asia"—is only a phrase to cloak their twofold object of dominating China in their own interest and of expelling Western influence from the economic and cultural life of that country.

A leading Chinese strategist once remarked that China yielded space in order to gain time. In many respects time is on China's side. Nevertheless, nearly two and a half years of bitter hostilities have been weakening to China as well as Japan. Tens of millions of people have been driven from their homes. Throughout huge areas internal production and trade and external commerce are throttled by Japanese interference, while large parts of North China are threatened with famine owing to recent floods. China's financial structure is naturally showing the effects of this strain. Impaired revenue and heavy emergency expenditures leave the budget unbalanced. The foreign exchange value of the currency has fallen to around a third of its pre-hostilities level, although fortunately in the country as a whole the level of internal prices has not risen alarmingly. Losses from destruction of property and from economic disruption have been widespread. Yet despite everything, China carries on amazingly with her economic life, due to her decentralized and predominantly agricultural organization and the resourcefulness and tenacity of her people.

In the past, material assistance from friendly countries has been of great value to China in maintaining her economic and financial structure. The credit of $25,000,000 which the American Export-Import Bank granted in December, 1938 to a Chinese trading corporation has made possible the purchase of much-needed commodities in the United States. The British credit of £5,000,000 of March, 1939 has aided in maintaining the value of the Chinese currency. Russia also has granted important credits, in considerably larger amounts, for the purchase of Russian supplies.

Japan is now eager to end the "China incident," but there is no indication of an early end to the fight. Assuredly it is in the interest of China's Western friends that there be no avoidable weakening of China's financial front.

Russian "Army" Overworked, Says S. V. C. Report

Col. J. W. Hornby, in his report dealing with activities o the Shanghai Volunteer Corps last year, called attention to certain interesting developments in connection with the Russian Regiment. Lack of suitable applicants and transfers from the unit to the Police Reserves had made it necessary to lower the physical standards of recruits. While the unit was permitted to recruit 10 per cent over its quota, the strength of the force was actually 30 under quota. Despite the decreased number, the duties had been greatly increased. The men had spent 1,367 hours on street patrol work, providing foot patrols, armed truck patrols, escorts for armored cars. The detachment had "stood by" from Aug. 9 to 15 and for nine days altogether during the year.

In addition, "picquet" platoons had been kept standing by night and day, but this had not been necessary recently. Assistance had been given the police on 25 separate occasions, the number of men involved being from 30 to 100. On Feb. 25 the Russian force had supported the police on 14 search posts on Bund pontoons, which entailed the services of 70 men daily. This service was being continued. Since July 25 the force had supplied drivers for armored cars lent to the police, a duty which had absorbed nearly the entire drivers' platoon, necessitating the transfer of men from other S.V.C. transports. Due to the shortage of man-power some of the drivers had been on duty for 12 to 16 hours daily.

The Russian detachment is still housed, stated the report, in the same buildings they had occupied since 1938, two premises rented from the Central Bank of China. The buildings were said to be uneconomical, wasteful and crowded. Training had to be curtailed because of the large number of men employed on daily duties. Lack of space in the Settlement had also made it difficult to train recruits, according to Col. Hornby's report.

Despite the limitations, however, the standard of drill and turnout had been good. Training was largely concentrated on mob dispersal and street fighting, stated the report.

Foodstuffs Now Entering The Tientsin Concessions

Truckloads of fresh vegetables, fruits and meat commenced entering the British Concession at Tientsin on Monday of this week after representations by the British and American consuls-general and the American Chamber of Commerce led the Japanese military to agree that five tons of such supplies be permitted to enter the Concession daily.

British Concession police last Saturday arrested 13 Chinese and turned them over to police of the French Concession for questioning in connection with an alleged plot to destroy the Japanese-owned Cathay Theater in the French Concession. The arrests followed the recent discovery of four incendiary bombs in the theater, *United Press* reported. Most of those arrested are young men and women, among them being Miss Hsin Chieh-chu, headmistress of the Shute Chinese School, and three teachers attached to the institution.

Balkan Pact Extended for Another Seven Years; Mussolini's Organ Voices Satisfaction

NO one knows, except the delegates themselves and governments which had efficient spies gathering news of the discussions, exactly what took place at the three-day conference of the Balkan states which met in Belgrade on Feb. 2. Official communiques are usually designed to conceal the substance of such discussions, and the one issued in Belgrade when the conference closed on Feb. 4 was quite innocuous. The communique stated that the attending states—Rumania, Yugoslavia, Turkey and Greece—had agreed to ratify the Balkan Pact for another seven years, to keep out of the European war, to maintain the closest cooperation among themselves, to continue friendly relations with neighboring peoples, and to promote extensive collaboration in matters of commerce and transport.

M. Grigore Gafencu, the Rumanian Foreign Minister, read out the communique and announced that he wished to deny "all the sensational rumors which got abroad concerning the conference." The most sensational of these, according to a *United Press* report from Belgrade on Feb. 3, was that Rumania had threatened to swing completely into the Russo-German orbit unless Hungarian and Bulgarian pressure against the members of the Balkan Entente was relaxed immediately. In this connection, it has been asserted that Rumania has already made substantial economic concessions to Germany in exchange for diplomatic action by the Reich which resulted in a relaxation of Soviet pressure on Bessarabia.

Rumania is not alone apprehensive of Russian designs on Bessarabia (once a Czarist province), but also of territorial claims by Bulgaria (which has consistently refused to join the Balkan Entente) and Hungary, the disputed territories being Dobruja and Transylvania. In order to avoid disastrous fighting among themselves, the Balkan states have tacitly agreed, for the time being, to drop their territorial claims against each other, for they realize that only by their unity can they hope to withstand the pressure of the two big European belligerent camps and hold off from the conflict until such time as it appears advantageous to join one side or the other.

Italy, another of the European fence-sitters, voiced satisfaction over the results of the Belgrade conference. Said the *Voce d'Italia,* mouthpiece of Premier Mussolini: "Italy's tenacious efforts to neutralize foreign influences in the Balkan game have finally prevailed."

The Soviet invasion of Finland was referred to on Feb. 5 by the *Corriere Padano,* which said: "Stalin's action in the Baltic states, especially his aggression against Finland, goes far beyond any prior accord reached with Chancellor Hitler. The Soviets are unscrupulously trampling on all German interests in the Baltic area."

Recent reports in the British and Continental press, alleging that Soviet troops had been massed at the border of Afghanistan for an attack on India, were denied by a high authority in London on Feb. 3, according to *Reuter.* There are at present no indications whatever of any such unusual Soviet troop concentrations, it was stated.

The former Kaiser Wilhelm II called on Germany, France and Britain to cease fighting and join forces to drive Bolshevism from the world, in a letter to Mr. Poultney Bigelow, his biographer, which was made public in New York on Feb. 2. "The magnificent stand of the Finns has smashed the nimbus of Bolshevism and set people thinking, with the result that the wish for peace is gaining ground," the ex-monarch declared, adding: "The belligerents should stop fighting and join together to help the Finns. They should fight in one line to rid the world and civilization of Bolshevism."

London Herald

Both: "Caught, you old rascal!"

Japan Seeks 'New Order' Trade Pact with France

Japan has proposed the negotiation of a war-time trade pact with France to replace the peace-time accord negotiated in June of last year, *United Press* reported from Paris early this week. It was stated that Japan desired to negotiate on behalf of herself and also Manchukuo, North China and the prospective new government of Wang Ching-wei, thus attempting to force French recognition of the latter in spite of the recent French declaration that Paris recognizes only the Chungking Government in China.

The Anglo-Japanese Hosiery Agreement, regulating English imports of Japanese hosiery and footwear, has been extended to the end of 1940, according to a *Havas* message from London.

St. Tichon's Orphanage Makes Appeal for Funds

An appeal to the public of Shanghai to subscribe the sum of $30,000 to maintain the work of the institution during the current year was issued last week by St. Tichon's Orphanage, which is located at 770-772 Route Bourgeat in the French Concession. The orphanage is caring for more than 100 destitute foreign children, and the cost of this for one year is estimated at $35,000, of which $5,000 is assured by grants from local authorities and charitable associations. Of the additional $30,000 required, $7,000 was raised at a grand soiree held Feb. 2 at the Arcadia night club.

Wang Ching-wei's Puppet Government Now Slated to Emerge in March If No Fresh Snags Appear

DESPITE Chungking's warning to foreign powers against having any dealings with his projected government and in face of the nation-wide condemnations of his treacherous dickerings with the Japanese, Wang Ching-wei appears to be determined to instal himself as the puppet head of the Japanese - sponsored "central regime" in occupied-China. March 15 is stated to have been chosen by Wang as the latest date for his "inauguration" and the scene of the puppet show will be Nanking.

As a warning to foreign powers, the Ministry of Foreign Affairs at Chungking has instructed Chinese legations and embassies to inform foreign governments that the Chinese Government will not recognize any agreement that may be concluded by them with any puppet government formed by Wang Ching-wei at the instigation of the Japanese. The Ministry also voiced the Chinese Government's wish that no friendly government should accord recognition to a puppet regime formed by Wang or others under Japanese domination.

Council to Meet Feb. 15

After repeated delay in its scheduled appearance, the Wang Ching-wei government, according to a tentative understanding reached during the recent Tsingtao conference, is slated to be formed on March 15, barring unforeseen difficulties which may crop up between now and then. The puppet "Central Political Council" is scheduled to hold its first meeting in Shanghai on Feb. 15 to decide on the personnel of the new government. The Shanghai meeting is expected to be attended by representatives of the "Orthodox Kuomintang" and the Peiping and Nanking regimes.

In preparation for the eventual establishment of the new central regime, a preparatory committee has been created with Chu Min-yi as chairman and Chen Chun (Nanking's education minister) as vice-chairman. The principal task of this committee, it is understood, is to arrange for the taking over of former government buildings in Nanking. In this task, the committee is expected to encounter serious difficulties, as most of the government buildings have either been destroyed or damaged, while the few not seriously damaged have been commandeered by the Japanese military authorities.

It is expected that Wang Ching-wei will be elected "president" of the Executive Yuan of the new regime, with Chu Min-yi as his secretary-general. The finance portfolio is slated to go to Chou Fu-hai, leading supporter of Wang's peace movement, while the Ministry of Foreign Affairs will be headed, concurrently, by Wang.

Post of Chairman Vacant

To avoid the issue of recognition by foreign powers, promoters of the new regime are understood to have decided to leave the post of chairman vacant but to "borrow" Chairman Lin Sen of the National Government as its head. By "borrowing" an official from Chungking, they expect to create an impression abroad that Chairman Lin is recognized by the new regime.

Wang Ching-wei's "peace" activities and his secret sell-out agreement with the Japanese continue to evoke condemnation both in China and abroad. Gen. Li Tsung-jen, noted Kwangsi commander, in a circular telegram, bitterly denounced Wang for his attempt to "sell out the country to the enemy." Gen. Li said that Wang's action in "recognizing a thief as his father" is not only a disgrace to the Chinese nation but also to mankind.

Wu Chih-hui, famed satirist and veteran Kuomintang leader, demanded that severe punishment should be meted out to Wang for his treasonable activities. Referring to the secret agreement between Wang and the Japanese, Mr. Wu said that the revelation of the secret "Outline Governing Readjustment of New Sino-Japanese Relations" was a "first-class joke." He urged the vigorous prosecution of the war of resistance as an answer to the Wang-Japanese deal.

Agreement Said Signed

Challenging the denial made by Wang of the agreement reported to have been signed between himself and the Japanese, Pan Kung-chan, vice-minister of publicity in Chungking, asserted that the agreement had in fact been signed and quoted an admission to that effect which Wang made in a telegram to Gen. Chiang Kai-shek on Jan. 16. (See *The Review* for Jan. 20, page 269).

Mongols living in "Free China" wired Gen. Chiang Kai-shek supporting his policy of resistance against Japan and denouncing Wang Ching-wei's secret deal with the Japanese. Telegrams denouncing Wang, from the various provincial authorities, were also received in Chungking.

Overseas Chinese communities in various parts of the world, particularly the United States and the South Seas, were unanimous in their denunciation of Wang. They pledged their support to Gen. Chiang Kai-shek in his fight against Wang and other traitors and endorsed the policy of prolonged resistance against Japanese aggression.

The Chinese Campaign Committee in London issued a long statement "denouncing unconditionally the so-called peace terms, recently discussed with the Japanese authorities by

"United Front" Cuts Off Wang

Mass Resistance Weekly, Chungking

The hand wielding the scissors is labelled "Labor, Farmer, Army, Scholars, Merchants," and is shown in the act of cutting the tie that bound the traitor Wang Ching-wei to his native country. Wang is shown wearing wolf's clothing and carrying a banner advocating peace with the enemy.

Wang Ching-wei." The Committee pledged itself to endeavor to prevent recognition by the British Government of any puppet government under Wang Ching-wei.

Puppet Family Murdered

The entire family of one of the most influential officers of the Social Affairs Department of Wang Ching-wei's "Orthodox Kuomintang" at 76 Jessfield Road was wiped out cold-bloodedly about two weeks ago, according to a report in the *Shanghai Evening Post & Mercury* on Feb. 3, quoting information emanating from Western Shanghai's "Badlands."

The victims were Tang Chiu-sen, head of the third division of the Social Affairs Department, his wife and their child. All were poisoned during a farewell dinner given by Tang's assistant on the evening before Tang was about to have left for Northern Kiangsu on a mission to buy over guerrilla units and disgruntled politicians for his superiors. The man involved in the murder of the Tang family is alleged to be one Wong, who was Tang's close associate and subordinate. Both the Japanese and Wang Ching-wei agents have been conducting a wide manhunt to arrest Wong.

More Defections

Further defections among the followers of Wang Ching-wei were reported in the Chungking press, among these being fifteen educational leaders in Shanghai, headed by Chen Kwang-cheng, who denounced Wang for his secret agreement with the Japanese. The 15 joined Wang's "peace movement" a year ago.

"Traitor Wang Ching-wei" was denounced by *Pravda*, the official organ of the Soviet Government, which stated that the object of his agreement with the Japanese is to place China in a position of complete subservience to Japan.

"The Twenty-One Demands were mild in comparison with the latest expression of Japanese ambition, as revealed in the Wang-Japanese agreement," the *Washington Post* declared editorially. "China would be transformed into another Manchukuo, a land ruled by Chinese puppets manipulated by Japanese wire-pullers," the paper said.

Washington Post Answered

The *Washington Post's* comment drew a sharp retort from Wang's mouthpiece, the *Central China Daily News*. After asserting that the *Washington Post* does not represent general American public opinion, the Wang organ charged the United States with failure to fulfil her obligations in the Far East since the outbreak of the Sino-Japanese hostilities. The paper also declared that American statesmen are mistaken if they believe that by continuing to help Chungking to continue the war they will make China more dependent on America and force Japan to yield.

In reply to the *Pravda* attack, the *Central China Daily News* remarked that the paper is an organ of the Third International, which, in its opinion, is an "international rascal."

Some confusion has been caused by conflicting reports regarding British Far Eastern policy. While Wang Ching-wei sources claimed that Sir Archibald Clark Kerr, the British Ambassador, recently assured Gen. Chiang Kai-shek of continued British support, some observers profess to see significance in the British Embassy's denial of a change in Britain's trade policy toward Japan and in the call of the Chinese envoy, Dr. Quo Tai-chi, at the Foreign Office in London.

soon at Hongkong. Dr. Wang was said to be charged with an important mission. Chen Li-fu, minister of education, is also reported to be visiting in Hongkong to confer with Chinese and foreign educational leaders.

Wang Mission Said Failure

Dr. C. T. Wang, former foreign minister and ambassador to Washington, now in Hongkong, was alleged by the *China News Agency* to have failed in his mission to Manila, which he visited recently. Dr. Wang was said to have been instructed by the National Government to obtain permission from the American authorities there to organize branches in the Philippines of the Three People's Principles Youth Corps and to solicit funds from the overseas Chinese there through the sale of government bonds. Wang Chuan-sheng, a member of the Central Political Council, was reported to have been appointed Dr. Wang's successor to continue the mission in the Philippines.

The same Wang organ reported that a branch of the Three People's Youth Corps had been organized in Hongkong, with Gen. Huang Chi-weng, a former division commander of the Kwangtung Army, as leader and Gen. Wu Te-chen as advisor.

China's First Glider Competition

Pictures by Tsai Wen Cheh

Nanking University, now located at Chengtu, Szechwan, served as sponsor for China's first exhibition and competition in the operation of gliders. The exhibition was held under the direction of the University's physics department. The interest of Chinese students in gliding has been greatly stimulated as a result of displays and propaganda spread by the National Aeronautical Commission, which has its headquarters in Chengtu. Chen Li-fu, Minister of Education at Chungking, is planning further exhibitions and competitions at all high schools and universities in west China. The Ministry has ordered 100 gliders from various Chinese factories. *Upper Left:* **One of the Chinese-built gliders on the campus of West China Union University.** *Lower Left:* **Wei Chao (center), head of the glider training department of the National Aeronautic Commission, standing before one of the new gliders. On the left is T. K. Chao, chairman of the Physics Club, University of Nanking.** *Upper Right:* **Wei Chao lectures on gliders and gliding at the exhibition.** *Lower Right:* **The glider** *"Ta Kung Pao"* **which was manufactured in Germany and recently delivered in Chengtu. It was donated from contributions raised by the newspaper** *Ta Kung Pao.* **Two other gliders made in Chinese factories of native materials are also shown in the picture.**

British Trade With Japan

On Jan. 31, the British Embassy at Chungking issued a statement denying a press report from London to the effect that the British Government might take advantage of the opportuntity offered by the lapse of the U.S.-Japan commercial treaty to expand British exports to Japan. On the same day, Dr. Quo called on R.A. Butler, British Under-Secretary of State for Foreign Affairs. Whether the call was linked in any way with the rumored change in British trade policy towards Japan can not be ascertained. A *United Press* dispatch from London stated that they discussed all aspects of Britain's Far Eastern policy.

Meanwhile it was rumored, according to Wang Ching-wei's *China News Agency*, that Foreign Minister Wang Chung-hui and the British Ambassador, Sir Archibald Clark Kerr, had arrived or were due to arrive

The Tale of Douglas Aircraft: Got its Start in A Barber Shop

BY J. D. BOWERSOCK

(Kansas City Star)

DOUGLAS PLANES BEST KNOWN IN ORIENT

Persons who travel about the Orient in airplanes, whether by China National Aviation Corporation (C. N. A. C.) service, Pan-American Trans-Pacific, Japanese airlines — in Japan or on the Continent—Netherlands East Indies, the Philippines, Southwest and West China, or on the new service from Chungking-Kunming to Rangoon, are familiar with the famous Douglas DC 2's, 3's and the giant DC 4 transports which carry both passengers and freight. In Japan they call them "Douglas-type" planes, as they are assembled in Japan from engines and parts made in the famous Douglas plant at Los Angeles, described in the accompanying article as the world's largest aircraft company.

With most of the world turning toward militarism it was inevitable that the Douglas company should adapt its famous passenger and transport planes to military use, the result being as indicated in the illustration accompanying this article. Both Britain and France have placed orders for large numbers of these planes and they are said to be already in extensive use in the American Army and Navy services. Under the "moral embargo" on sale of aircraft to Japan and the Soviet Union, neither of these countries will be able to purchase the new Douglas bombers. While the Germans have been justified in their claims regarding the superior qualities of the "Messerschmidt" plane, recent *Reuter* dispatches from New York have indicated that the new-type American planes will shortly challenge the acknowledged superiority of Germany in the air.

THE clip of barbers' shears and the crisp sound of a sharp razor against a tough beard used to mingle with the scratching of Donald Douglas's pen as he tried to work out the details of the airplanes of the future in his first factory, a small space in a Los Angeles barber shop.

That was less than twenty years ago but that barber shop concern has since developed into the largest aircraft company in the world. The name of Douglas now is connected with almost every air line in the United States and those in twenty-two foreign countries.

Still Looks to Future

Seated in the spacious office of his gigantic aircraft plant which today is working on military and commercial orders totaling 50 million dollars, Don Douglas still looks toward the future in the air. A conservative man of only 47 years, he is a bit timid about talking about himself, but he enjoys an occasional visitor and is taking the aviation boom as calmly as though it were just as he planned it when he chucked a naval career, emptied his own bank and started to design machines to fly.

Douglas had been drawing pictures in his room at the Annapolis Naval Academy where he was a midshipman. He even built a model airplane. His mind was in the air, not on the water, and he foresaw some of the possibilities of the airplane as a military weapon. In fact, one of the circumstances which caused his departure from the academy was that one of his toy planes, buoyantly floating in the air, accidentally dived on an admiral. The subsequent remarks from the officer were not encouraging to the young midshipman, so he made a hurried departure.

Douglas Aircraft Head

Donald Wills Douglas, president of the aircraft company which bears his name. At 47, he is a "veteran" of the aircraft industry. His planes are used on most commercial air lines in America and in twenty-two foreign countries.

At Kitty Hawk, N. C., two other young men, Orville and Wilbur Wright, had put together a contrivance of glue, piano wire, bamboo and fabric, added a touch of courage, and sailed through the air. So, on running away from the academy, Douglas headed for Ft. Myer, Va., and watched the Wright brothers conquer the elements and convince the United States army that the "aeroplane" should be a part of its equipment. That was in 1909, and Douglas saw the first sale of an airplane to the army. Since that day he has seen many sales orders go across his desk for many types of aircraft for the army and navy, as well as fighting planes for foreign countries.

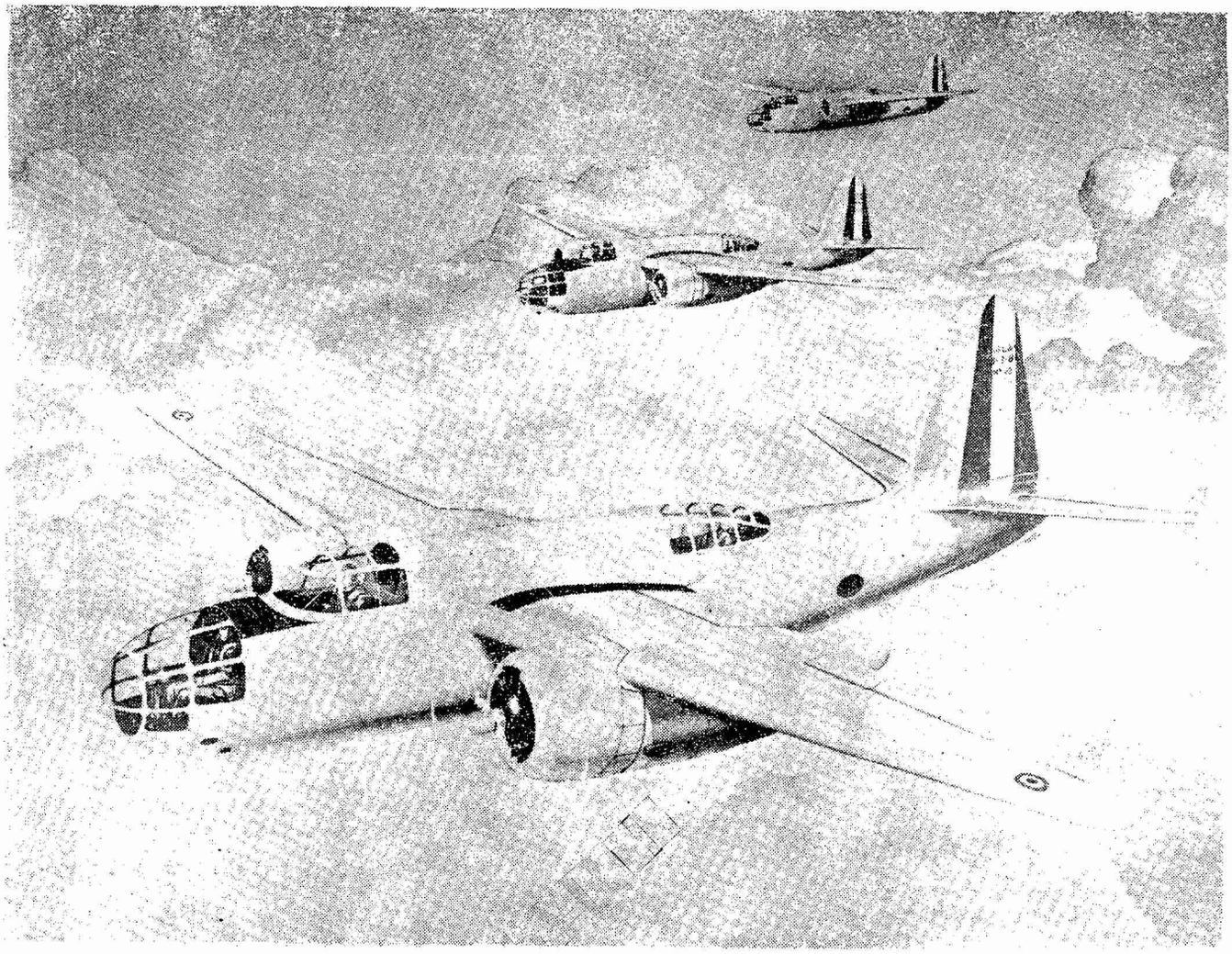
It was the early ambition of Douglas's father, a New York banker, that his son become a naval officer, but the early experiments in heavier-than-air craft had made a definite impression on the youngster. Like a second Jules Verne, he dreamed and drew pictures of cargoes moving through the air and visualized the possibilities as well as the need of commercial aviation.

After his visit to Ft. Myer he returned to the academy through the window by which he had escaped, and, with other students, drew up plans for the incorporation of airplanes in the navy's program. The gold-braided officials of the navy department promptly rejected this suggestion, but Douglas was not to be stopped now. He saw the foggy congressmen, and red tape of the navy department and the tradition-ridden naval academy only as obstacles to the realization of his dreams, so in 1912 he resigned.

From Annapolis he went to Massachusetts Institute of Technology and took up aeronautical engineering. Soon he was at work for the Connecticut Aircraft company, and he assisted in the building of the first navy dirigible.

In the meantime a young man from Kansas, who used to build kites on his mother's kitchen floor, was making progress in the building of airplanes. That man was Glenn L. Martin, and out in Los Angeles he had established

World's Most Powerful War Planes



The newest Douglas bomber, said to be the most powerful war-plane ever invented. According to the specifications, it is rated as an outstanding attack bombardment airplane, having high speed required for effective military operations and highly desirable maneuverability, armament load, fire-power and range of action. It is a bimotored, all metal, three-place monoplane, each motor 1,050 horsepower, maximum speed 315 miles an hour (570 kilometers) at 13,500 feet (4,118 meters) altitude with a normal gross weight of 15,030 pounds. Carries a maximum useful load of 5,430 pounds, of which approximately 2,000 pounds may be devoted to bombs. Has six machine-guns, four fixed guns firing forward and two flexible mounted guns aft. Loads 80 vertical-mounting 30-lb fragmentation bombs, or approximately 2,000 pounds of 100, 300, 600 or 1,100 pound demolition bombs. Has "new tricycle" landing gear apparatus, eliminating possibility of nosing over when landing. Has wider view range than any other plane of the type.

what might be termed an airplane factory where he was filling orders for planes for the army and foreign governments. He was prospering. He needed an aid and young Donald Douglas was the man to become chief engineer. After a year at the Martin plant he returned to the East to become chief designer for the aviation section of the army signal corps.

He rejoined the Martin company, this time in Cleveland, and from then on the 25-year-old "veteran" of aviation rose rapidly. While most young men would be happy to have the title of vice-president tagged on their name, at 28 Douglas started out for himself in 1920. It was a time when aviation was at its lowest ebb but nothing could discourage Douglas. He watched the war aces organize flying circuses so they could eat and heard much talk of the uncertainty about the future of aviation.

Back to the West coast he went with his dreams and his blueprints. He was a likable young man, but those he approached also liked their money and were intent on keeping it in their own pockets. His shoes became a little thin and meals irregular. All the men of wealth he knew thought his plans fantastic. He was advised to get out of the business, if it could be called a business.

Along came an angel from the city of angels, one David R. Davis, wealthy Hollywood sportsman, who wanted to build an airplane and make the first transcontinental flight across the United States. And thus was born the first Douglas company, which was nothing more than desk space in a barber shop. Often the vocal harmonizing or discussions of ball games interfered as he worked on his plans for the first plane he built, the Cloudster.

By 1921, it was finished and, with Pilot Eric Springer at the controls and Davis as the passenger, took off for the East coast. Motor trouble forced it down near El Paso and while they were trying to get it repaired two army officers, Lieuts. Oakley Kelley and John Macready, hopped from New York to San Diego. Thus Davis's dream went out the window and the Cloudster went on the auction block. But Davis agreed to help the young builder by financing his way to Washington to sell planes of the Cloudster type to the navy and the young aircraft designer hit. He came out of the navy department with an order for $120,000 worth of Cloudsters, to be used as torpedo carriers.

Needed Only $15,000

That order looked bigger to Donald Douglas than the huge plant "backlog" today. But to the men with money in Los Angeles it didn't seem to mean much. In his barbershop office Douglas got a lead which acquainted him with Harry Chandler of the Los Angeles Times. All Douglas needed to "get into production" was $15,000 and Chandler agreed to sign a note for $1,500 if nine other Los

Angeles businessmen would do the same. With Chandler's support the money soon was in hand and the navy got a fleet of Cloudsters and Don Douglas became a recognized manufacturer.

Davis got out of the company and, with a capitalization of $100,000, the Douglas company was formed and moved into an abandoned motion picture studio in Santa Monica. Here Douglas built the DWC type planes in which the army in 1924 circled the world and from which comes the Douglas slogan: "First Around the World."

New Plant is Built

His company grew and the then 32-year-old president saw the number of employees increase from a dozen to 500 in 1928. Then the new plant was built and since then has been expanded many times. Today there are more than 9,000 employees and the monthly pay roll is more than a million dollars. The company is the largest employer in California. The earnings of the company last year were $2,147,392. And they told him only a few years before to "get out of the business, if it can be called a business!"

In the last seventeen years the Douglas company has built 2,326 airplanes which sold for almost 100 million dollars. But the pride and joy of Donald Douglas is the Douglas DC 3, the commercial transport used on most of the air lines today. Surrounding him in his office are many photographs and models of planes of other days. There are trophies and plaques for distinguished service and this year Douglas is destined to receive another great award for his accomplishments in the development of aircraft.

"The DC 3 answers the need of commercial aviation in every way today," he says. "But of tomorrow that is something else. Our need for larger planes as traffic increases is getting more acute. Perhaps the answer is in our recently completed DC 4, with a capacity for more than fifty passengers. But who knows? Perhaps we will be building planes of 150,000 pounds, a wing spread of 250 feet and of 100-passenger capacity."

An Aisle Five Blocks Long

Stepping through a doorway into the factory one can look right down an aisle for five city blocks. And along the sides of that aisle the various parts which go to make up the commercial transports and army bombers are being built. The building of big planes, such as those manufactured by Douglas, is a long, slow and expensive job. Built of steel and duralumin, there are from 30,000 to 50,000 separate parts, from tiny rivets to tires. And each and every one must be as carefully installed, inspected and reinspected as the delicate precision mechanism of a watch.

The Douglas plant is in two divisions. The main plant of 1,400,000 square feet of space here in Santa Monica is in marked contrast to the original ten-by-ten space in the barbershop. The other, known as the El Segundo division, is near the Los Angeles municipal airport. The main assembly plant here, recently added, has a door which opens to allow a plane with a 250-foot wingspread to be rolled out.

Building 50 Transports

At the present time, the Douglas plant is building fifty transports for various air lines, at a cost of more than $100,000 each, as well as a new type transport known as the DC 5, a twin-engine plane. The exact number of military planes is not divulged but may be estimated from the "backlog" of 50 million dollars. Of this amount 12 million dollars is for French bombers now being assembled at the El Segundo division. The army air corps orders being filled make up 46 per cent of the backlog for Douglas B 18 bombers, B 23 bombers and a new attack bomber, said to be the fastest of its type. Navy aircraft orders for torpedo bombers are for 6.3 per cent of the backlog, the foreign commercial transports amount to 5.5 per cent and the foreign military orders are 30 per cent of the backlog. The announced backlog does not include the six huge 4-engine 53-passenger DC 4 type planes. The first to be built of these was sold to Japan for $750,000. The production of this fleet of planes, to cost $500,000 each, is progressing rapidly and delivery is expected to be made to United Air Lines next year or early in 1941.

Production details at Douglas show that the plant is a model of efficiency in a most complicated task. Every modern machine to aid in the building of the planes is employed. One wonders how it is possible to keep track of the thousands of parts and operations involved in building an air liner or a bomber. Each part must originate and follow in proper sequence along the production line, must meet exacting specifications and finally be installed in its proper place on the ship.

A Huge Stock of Duralumin

For example, take a small piece of duralumin which, with other pieces, forms the leading edge of the wing. First, that small section is drawn, then a model is molded out of plaster of paris and from that a mold is made from which the die is cast. All these operations are necessary to make the one part. The dies are placed in 5,000-ton hydraulic presses and the piece is then stamped out exactly to specifications. It is weighed many times as it goes through operations of drilling and further shaping. All grease must be removed. In the Douglas plant the store room contains 2 million dollars worth of duralumin, large square sheets that some day will be molded into transports and bombers. It is the lightest and sturdiest of metals available to the airplane builders. At least 3,000 parts are made from this metal, from wing and cabin covering to the many reinforcing ribs necessary to give strength and security to the ship as a whole.

To illustrate the vast reaches of this company, Douglas averaged an expenditure of 1¼ million dollars a month in outside purchases of material during the last year. The company deals with 750 other companies, buying more than 30,000 items ranging from cotton to complete fuel tanks. Approximately 80 per cent of the materials purchased originate in the eastern part of the United States. The item of electrical wiring for the big planes cost more than $70,000 last year.

Leaving the huge plant after viewing it and hearing of its development, one wonders if Donald Douglas's mind goes back to that little barber shop when he uses an electric razor as part of the equipment on his sky transports today.

Japan to Reduce Power Consumption

Drastic reductions in Japan's electric power supply were due to go into effect Feb. 10, according to a *Domei* report from Tokyo on Jan. 31 which said that the provisions of the National Mobilization Act for meeting an electricity shortage "caused by an unprecedented drought" would be invoked. Tokyo, the report said, would have its supply reduced by 30 per cent, while the great industrial area of Osaka would be reduced 35 per cent, the reductions to apply for a period of at least 10 days. At the same time, a nation-wide 20 per cent reduction in electricity consumption is to be enforced as from Feb. 20.

The same agency reported that to meet difficulties in the rationing of Japan's rice crop, a "ticket system" was likely to be adopted.

Asama Maru Incident Still Not Settled

Rumors that the "Asama Maru Incident" had been settled as a result of conversations between Sir Robert L. Craigie, the British Ambassador in Tokyo, and the Japanese Foreign Office, were denied by Mr. Y. Suma, the Foreign Office spokesman, on Feb. 5. The denial was coupled with an announcement that notes on the subject which had passed between London and Tokyo were to be published.

The local office of the N.Y.K. Line, to which the Asama Maru belongs, stated this week that Germans of military age would not henceforth be permitted to travel on the company's vessels. A special form was being drawn for signature by intending German passengers, in which the latter would be required to certify that they had no connection with Germany's fighting forces, it was disclosed.

Mutiny Reported Among Nippon Troops in Canton

Certain Japanese Army units in Canton mutinied on Jan. 27 and fought loyal Japanese troops throughout the day before the outbreak was suppressed, the *Central Daily News* in Chungking reported Feb. 4, according to *United Press*. The rebellious soldiers, it was claimed, wanted the war ended and casualties were heavy on both sides before they were brought under control.

Minseito Leader Challenges Japan's 'New Order' Policy, Then Resigns

THE 75th Session of the Imperial Japanese Diet, which reconvened in Tokyo on Feb. 1, fulfilled expectations that it would display explosive tendencies when on Feb. 3 Mr. Takao Saito resigned from the leadership of the Minseito Party after delivering an address the previous day in which he assailed the peace terms offered to China by a former Premier, Prince Konoye, and declared that the people of Japan misunderstand the meaning of the proposed "New Order" in East Asia.

Mr. Saito's remarks caused a sensation and stirred the anger of the War Department, which demanded his expulsion from the Diet. Mr. Saito was charged with "polluting the memory" of Japan's war dead. The Speaker of the House referred the case to the Punishment Committee and Mr. Saito resigned the leadership of the Minseito.

Objected to Konoye Terms

What aroused the ire of the militarists and their puppet politicians, curiously enough, was a frank statement by Mr. Saito that he objected to that part of the Konoye peace terms which pledged respect for China's sovereignty, undertook to demand no territory or indemnities, promised to extend economic aid to China and to avoid restrictions on the rights of third Powers in China.

He also objected to Prince Konoye's promise to withdraw all Japanese troops from China, with the exception of those stationed in Inner Mongolia, and since force of circumstances permitted no alteration in the Konoye statement, Mr. Saito wanted the Government to state exactly what was meant by the "New Order" in East Asia. Wang Ching-wei, he pointed out, interpreted it as meaning good neighborly relations between China and Japan, joint defense against Communism, and Sino-Japanese economic cooperation. He then voiced skepticism as to the probable influence of the new Wang Ching-wei government if and when it is formed, and misgivings regarding possible contact between that government and the Chinese Government at Chungking.

Admiral Mitsumasa Yonai, the Premier, answered Mr. Saito by declaring that formation of the new central government in China would mark a big step forward in the settlement of the China "incident" and that consequently the Government would do all in its power to hasten its establishment. Japan's policy in China, he added, remains "fixed and immutable." Antagonism between Wang Ching-wei's government and the government at Chungking was inevitable, he said, but Japan expected the Chungking Government to be dissolved and incorporated into Wang's government "as soon as possible."

'Holy War' in China

Gen. Shunroku Hata, the War Minister, also answered Mr. Saito. He said the China campaign was called a "holy war" because it aims at the extirpation of the pro-Communist, anti-Japanese regime in China and the stabilization of East Asia. "Japan has no intention of preying upon lesser nations," he said, adding that the "holy war" differed basically from wars of aggression in which stronger nations devoured weaker ones. He was convinced that "the benefits derived from the 'New Order' would more than repay the material and spiritual sacrifices" of the Japanese nation. "Not only the million Japanese troops in China, but all the officers and men of the Army are carrying on their duties for the attainment of the objective of the sacred campaign with this conviction. A hundred thousand heroes have calmly laid down their lives for this conviction. There is not the slightest misapprehension among us regarding the basic policy for the settlement of the China affair. It is with deep regret that I note there are still some who hold in doubt the objective of the present incident," the War Minister concluded. Vice-Admiral Zengo Yoshida, Minister of Navy, endorsed the remarks of the War Minister.

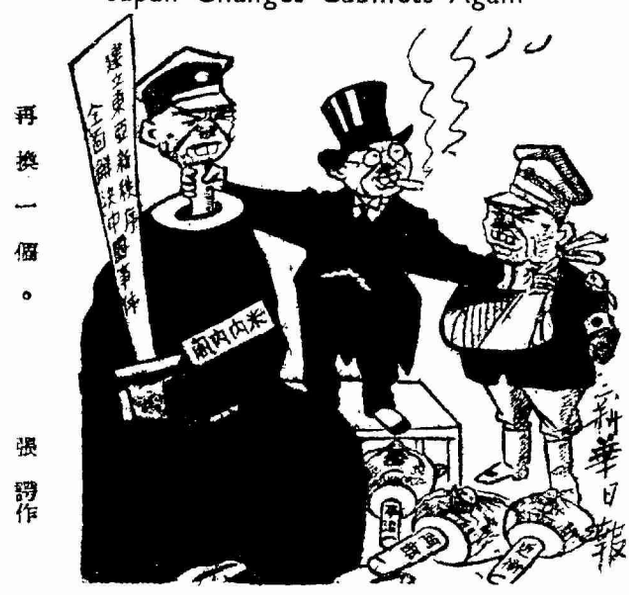
The most interesting Japanese press comment on the Saito speech came from the *Kokumin Shimbun*, which said that Mr. Saito's demand for territorial cessions and payment of an indemnity by China reflected views prevailing in certain Japanese financial and economic circles. Pointing out that the Konoye statement had failed to satisfy the liberal Mr. Saito, the paper remarked that liberals never liked war, but invariably made imperialist demands in connection with peace terms.

Ministers Outline Policies

When the Diet session resumed on Feb. 1, the policies which will be pursued by the new Yonai Cabinet were outlined by the Premier and his leading ministers. Addressing the Lower House, Premier Yonai declared that Japan would "resist with determination" any interference with the establishment of a "New Order" in East Asia motivated by ill-will. The China conflict, he went on to say, could be settled in only one of two ways: either by the surrender of the regime headed by Gen. Chiang Kai-shek or by its disintegration and absorption in the new central government which was to be formed. In bringing about one or other of these developments, Japan will use both military pressure and "non-military but positive measures."

As regards domestic policy, Premier Yonai told the Diet that a full bowl of rice for every Japanese was the goal of his government, whose major aim would be to secure production of sufficient amounts of such necessary commodities as rice and suitable distribution thereof among the people so that there might be a constant supply. At the same time he warned the people that they "must be conscious of the war" in China and observe "war-time economic morality, reform their living, and with unflinching determination cope with the present conditions for the purpose of accomplishing Japan's unprecedented historical task."

Japan Changes Cabinets Again



This cartoon from the Hsin Hwa Jih Pao, Chungking, ridicules Japan's frequent changes of cabinet due to the China war. On the ground are previous discarded cabinet "Heads", labeled Konoye, Hiranuma, Abe. The sword is labeled, "New Order in East Asia."

Japan to Remain Neutral

Reviewing the international situation, Admiral Yonai said it had become "tangled" because of the war in Europe and it was not easy to predict future changes. "In view of these circumstances, Japan will stick to the principle already adopted. She will not become involved in the European conflict, but will drive toward a settlement of the China incident. In relations with other powers, Japan will definitely take an independent standpoint of its own and effect a readjustment of relations with them."

Japan's foreign policy, Mr. Hachiro Arita, the Foreign Minister, told the Diet, "aims first at stabilizing East Asia, after which every effort must be made to bring about peace based upon international justice." He attacked unnamed nations for "trying to maintain an irrational and unjust international *status quo* relative to race, religion, territory, resources, trade, immigration and other matters by adopting exclusionist policies or by abusing superior positions....real world peace, based on justice, cannot be expected to prevail unless and until these causes are thoroughly eliminated." The European war, he added, was destined to bring about drastic

changes in the general situation of Europe and its effects on the settlement of the China incident were likely to be "tremendous." In fostering a New Order in East Asia, Mr. Arita declared, Japan had no desire to abolish the rights and interests of third Powers in China—"We are, in fact, anxious to see the development of China's trade with other Powers and welcome foreign investments in China so long as they are of a purely commercial character. And that, I am confident, is also the wish of the new central government of China about to be established."

Taxes and Rearmament

A demand for nation-wide cooperation in order to insure the smooth operation of the government's financial and economic policies was voiced by the new Finance Minister, Mr. Yukio Sakurauchi. It was necessary, he said, to promote export trade, deal wisely with policies regarding commodities, prices and public loans, and to establish a firm economic bloc between Japan, China and Manchukuo. While declaring that in the preparation of the 1940-41 budget "emphasis" had been placed on economy "as much as possible," the Finance Minister announced that "reforms in the taxation system" (Japanese government euphemism for increased taxation) were to yield Yen 604,000,000 this year and Yen 814,000,000 in succeeding years.

While the Japanese nation was thus being told of "economies" which in any case mean increased taxation, the Army and Navy announced on Feb. 1 extensive rearmament plans calling for an expenditure of more than Yen 10,000,000,000 over a period of six years, of which the Army will spend $5,413,878,000. The rearmament plans, it was stated, are designed to enable Japan to attain its aims in China and also to cope with future developments in the international situation.

The situation of the war in China was outlined to the Diet by Gen. Shunroku Hata, the War Minister. Chinese armies had suffered losses estimated at 3,000,000 men and Japanese forces had occupied Chinese territory two and a half times as large as the Japanese Empire, he claimed, at the same time asserting that the striking power of Chinese forces had been reduced to one-fourth of what it had been when the hostilities in China commenced in 1937.

Japanese Remove 1,058 Mines from Yangtsze

In the 13-month period from Jan. 1, 1939 to Jan. 31, 1940 the Japanese Navy disposed of 1,058 mines in the Yangtsze River, a Japanese naval spokesman announced on Feb. 2. Twelve vessels, all of small tonnage, were damaged in the mine-sweeping operations or by hitting mines while navigating on the river during that period, he said.

Bombay Foreigners Held For Censorship Offense

Seven foreigners were arrested in Bombay on Feb. 2 for attempting to evade the censorship by sending letters to Germany by the crew of an Italian steamer, *United Press* reported. The nationality of the arrested men was not disclosed.

Bloody Battles Raging in Kwangsi; Japanese Claim Pingyang Captured

WITH comparative quiet reigning on the eastern Chekiang front, where Japanese troops, late in January, succeeded in capturing Siaoshan, across the Chientang River from Hangchow, major news in the Sino-Japanese war is now coming out of southern Kwangsi where large Chinese and Japanese forces are locked in a battle upon which appears to depend the success or failure of the Japanese campaign in the southwestern province.

The newest campaign, which followed a long period of relatively minor engagements, was launched by Japanese forces in southeastern Kwangsi on Jan. 30, according to an announcement by the Canton headquarters of the Japanese Expeditionary Force to South China, describing it as "a decisive campaign on a scale unprecedented in South China." The action got under way, the announcement said, when Japanese forces crossed the West River near Wingshun, 60 kilometers east-southeast of Nanning, and turned the left Chinese wing "to complete their encirclement of the main force of 24 Chinese divisions massed in the mountains northeast of Nanning." The object of the operations, it was stated, was to engage Chinese troops still offering resistance, to annihilate them, and thus to frustrate completely any large-scale Chinese attempt to recapture Nanning.

Japanese Occupy Pingyang

Pingyang, 65 kilometers northeast of Nanning, was occupied by Japanese troops on Feb. 2, *Domei* reported. The city was described as the major Chinese military base for the projected recapture of Nanning. Following its seizure, the Japanese troops, again according to *Domei*, began tightening a noose around the Pingyang plain, where between 120,000 and 200,000 Chinese troops were said to be trapped in a vast pincer movement which had culminated in the fall of Pingyang.

Some time ago, it will be recalled, Chinese military dispatches claimed that Japanese troops in the Nanning area had been cut off from their base and confident predictions were made that Nanning would soon be recaptured by Chinese forces. It appears, however, that the Japanese poured heavy reinforcements into the province and succeeded in executing successful flanking moves against the Chinese positions. In the bloody battles now proceeding, Chinese troops seem to be fighting their way out of encircling Japanese forces, instead of vice versa.

Not in Finland!

Japanese destruction of a Chinese city (name not given) in Kwangsi province, by airbombs. The picture was distributed to the newspapers in Japan late in January by the military authorities and was labeled "After a Japanese Air Raid on the South China Front." The Japanese report stated that Gen. Chiang Kai-shek had recently visited the Kwangsi front and ordered the mobilization of 120,000 militiamen and irregulars, consisting of recently trained youths ranging from 18 to 30 years of age. They wear uniforms similar to regular troops and have recived a year and a half of training. When dressed in civilian clothes the irregulars are used for spying on Japanese positions, demolishing roads. They are concentrated at Nanning, Kweilin, Liuchow and Wuchow.

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91-434

Chinese Said Mopping Up

Chinese reports on the latest phases of the fighting in Kwangsi have been sparse. A report in the local Chinese newspaper, *National Herald*, on Feb. 3 reported heavy fighting but gave no confirmation of Japanese military claims. On the contrary, the paper said that Chinese troops were "pushing their mopping-up operations in the Nanning sector in earnest" — suggesting that the Japanese Army had suffered defeat.

A *Domei* report from Nanning the following day claimed that in four days a single Japanese column, advancing north along a tributary of the Yu River west of Wingshun, killed 3,000 Chinese troops and took 1,000 prisoner. Booty taken in the four-day period, the report said, consisted of 17 tanks, 23 motor vehicles, one field gun, several mountain guns, four rapid-fire guns, 13 trench mortars, 150 heavy machine-guns, 1,018 light machine-guns, 300 horses, 700 rifles and large quantities of ammunition.

The Japanese South China headquarters in Canton declared on Feb. 4 that the operations northeast of Nanning had entered the second stage, with a large number of Chinese troops trapped within a Japanese cordon. "Enormous casualties" had been inflicted on the Chinese both in encounters on the ground and as a result of aerial bombardment, it was claimed.

Prince Kotohito Kanin, chief of the Army General Staff in Tokyo, telegraphed congratulations to Gen. Toshizo Nishio, commander-in-chief of the Japanese Expeditionary Forces to China, and Lieut.-Gen. Rikichi Ando, commander of Japanese forces in South China, on Feb. 4. He particularly complimented the officers on their achievement in "annihilating the main forces of the Chinese by surrounding them in one stroke."

Japanese Officers Killed

Some suggestion of Japanese casualties in the Kwangsi battles was conveyed in a report by the Hongkong correspondent of the *North-China Daily News* on Jan. 24. In the fighting which recently raged for possession of the Kunlun Pass, through which the Nanning-Pingyang highway runs, Japanese casualties were estimated at about 5,000, among the dead being two detachment commanders and several lesser officers, the correspondent said.

A notable casualty was Major-Gen. Masao Nakamura, in command of the 21st and 23rd detachments (about 6,000 men) and a heavy artillery brigade. He was killed in action when he refused to retreat in face of intensive Chinese artillery bombardment. The correspondent revealed that Japanese strength in Kwangsi (Jan. 24) consisted of the 5th and 28th Divisions, believed to represent the cream of the Japanese Army. The 5th Division was employed in the fighting against Soviet and Mongolian forces on the Nomonhan front last year and then transferred to Kwangsi, the correspondent disclosed.

The death of Major-Gen. Nakamura was admitted in Japanese press dispatches which said that he was wounded last Nov. 25, in the jaw and abdomen, but continued to direct operations from a stretcher until Dec. 25, when he succumbed. He was 47 years of age and was an officer of the French Legion of Honor, besides holding various Japanese decorations.

More Alleged Mopping-Up

Although Chinese efforts to recapture Siaoshan, opposite Hangchow in Chekiang Province, do not seem to have been rewarded with success, Chinese reports from Kinhua, the provincial capital, state that Chinese troops were engaged early this week in "mopping-up" operations in the Siaoshan sector on the south bank of the Chientang River. Seven strategic points had been recaptured, it was claimed.

A *Kuo Min* report from Ningpo on Feb. 1 said that Japanese warships were active off the Chenhai fort at the mouth of the Yung River in eastern Chekiang and that precautionary measures had been taken by Chinese forces to meet any Japanese attack. Patrols were active, the report said, to spot any Japanese attempt to effect a landing by use of fishing junks.

Sweeping successes for the Japanese Army in Suiyuan have been claimed in a number of Japanese dispatches. After a "lightning drive" across the barren, snow-covered Ordos Plain, Japanese troops entered Wuyuan, 250 kilometers west of Paotow, on the morning of Feb. 3, and were reported to have continued their advance southwest as far as Yangkiatien, 14 kilometers from Linho, the following day. Linho is a strategic communications center near the Suiyuan-Ninghsia border, lying on the "Red Route" linking Ninghsia with Outer Mongolia. The total distance between Wuyuan and Linho is 100 kilometers.

Princesses Lead Troops

A Chinese report in the *National Herald* on Feb. 3 claimed that Japanese offensives in western Suiyuan had been "hurled back" and that Chinese troops, advancing in three columns, were closing in on Paotow. There has been no admission of the Japanese capture of Wuyuan.

In the action leading to capture of Wuyuan, the Japanese claimed (according to a *Domei* report from Paotow on Feb. 3) to have routed 50,000 Chinese troops under Gen. Fu Tso-yi and to have shattered all resistance. A *Reuter* report from Chungking the same day said that Chinese, Moslem and Mongolian troops under Gen. Fu Tso-yi were jointly resisting the Japanese advance westward and that two Mongolian princesses were personally leading mounted troops of the Eastern and Western Mongol Banners. Princess Chi Chun-feng, of the Western Banner, was described as a pretty girl in her twenties—"a perfect Joan of Arc in full Mongolian dress and seated on a charger," while Princess Pa Yun-ying was said to be a middle-aged woman. Both visited Chungking some time ago.

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FOREIGN CORRESPONDENTS:

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91-435

5 French Women Die In Yunnan Rail Attack

FIVE French women and children were killed and more than 100 Chinese killed or wounded on Feb. 1 when 36 Japanese planes bombed and machine-gunned a north-bound train on the French-owned Haiphong-Kunming Railway. The bombing took place in Yunnan Province, about 83 kilometers from the border of French Indo-China and has called forth international protest.

According to *United Press* report from Kunming, the Japanese bombers first destroyed two railway bridges near Mengtze, then flew north in pursuit of the train, which they wrecked, at the same time destroying the track in two places. The French women and children killed were the wives and offspring of French employees of the line.

Navy Men Aid Wounded

Among those travelling on the train when it was destroyed was a British naval party, consisting of the officers and men of the river gunboats Falcon and Gannet who had left their ships at Chungking to proceed to England for duty. All had miraculous escapes from death or injury. When the Japanese raiders had finished their destructive work, the British naval men turned to and spent many hours attending to the wounded and dying, the presence of the naval doctors of the two gunboats proving especially helpful.

According to *United Press* report from Chungking, Japanese planes bombed the railway again on Feb. 2 in the vicinity of Kaiyuan, about 100 kilometers from the Indo-China border. Chinese pursuit planes attacked the bombers, it was stated, and a furious aerial battle ensued in which, according to Chinese claims, a number of the Japanese machines sustained damage. The Japanese planes were said to have come from Kwangsi Province and to have returned there after the fight.

France has formally protested to Japan against the attacks on the railway. It may be recalled in this connection that France lodged a protest in Tokyo against bombing raids on the railway which the Japanese conducted late in December and early in January. Tokyo rejected the protest on the ground that the line was being used to move military supplies to the Chungking Government and that the bombings were a "military necessity." France, however, denied that the line was being used to transport military supplies to China.

An American Demarche

A *Reuter* report indicated that the French strongly support an American demarche against previous bombings of the line, which was being made in Tokyo by the American Ambassador, Mr. Joseph C. Grew, almost at the moment when the latest raids were taking place. According to *United Press* report from Washington, Mr. Grew informed the Japanese Government that the United States is concerned over the attacks on the Yunnan railroad, which it regards as an artery for the normal transportation of goods destined for the United States and a means of travel for American citizens and diplomats. These representations, it was stated, were considered short of a formal protest, but acquired added significance because of the already strained relations between Japan and the United States.

Advisory Committee Spends Huge Sums

Funds totalling U.S.$117,602.40, Hongkong $3,000 and Ch.$3,397,966.82 were allocated by the American Advisory Committee for relief of destitute Chinese civilians in various parts of this country from late 1937 until the end of 1939, according a statement issued in Shanghai by the Committee last week.

The grants, made in accordance with the rules and regulations of the Church Committee for China Relief, New York, which sent the funds to the Advisory Committee here, were administered by local committees in the field, most of which have foreign missionaries as secretaries and treasurers. Funds were used to provide food, clothing, shelter and medical aid.

The Tientsin-Peiping area, where funds are administered by the North China Coordinating Committee, topped the list of grants with sums amounting to U.S.$28,000 and Ch.$660,000. Chungking, the provisional capital, received U.S.$10,014 and Ch.$450,000. To Kaifeng, capital of Honan province, went Ch.$295,000, and to Tsinan, capital of Shantung, Ch.$165,000. In Shanghai, Ch.$155,100 was spent, and in Nanking U.S.$5,000 and Ch.$125,000. To Wuchow, in Kwangsi province, went Hongkong $3,000 and Ch.$4,000. Hankow received U.S.$50,000 and Ch.$62,690.83, while Hangchow, the Lake City in Chekiang, accounted for U.S.$1,000 and Ch.$59,982.48. Totals of U.S.$11,500 and Ch.$55,000 went to Canton, and Ch.$55,000 to Chengchow in Honan province. Chinkiang, capital of Kiangsu province, received U.S.$800 and Ch.$50,000. Ningpo received Ch.$59,500. Other allocations covered a similarly wide field.

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U.S.S. Luzon Not Fired On, Navy Official Says

The U.S.S. Luzon, flagship of the United States Yangtsze Patrol, was not fired on during its trip down-river last week-end, according to a statement made by an American naval spokesman after the vessel had reached Shanghai last Sunday afternoon with Ambassador Nelson T. Johnson on board. Mr. Johnson, who was returning from a tour of inspection which took him to Hankow, confirmed this denial, which was made in reply to a statement of the local Japanese military spokesman who announced on Feb. 2 that "shells fired by Chinese field artillery fell near the U.S.S. Luzon" at a point about four miles down-river from Tihang, approximately 20 miles above Wuhu, that afternoon.

The American naval spokesman said, however, that the party aboard the U.S.S. Luzon witnessed firing on a Japanese transport proceeding upstream by an "unknown shore battery." It may be recalled that when Ambassador Johnson set out for Hankow on the U.S.S. Luzon, the Japanese military spokesman in Shanghai publicized an alleged plot by the Chungking Government to shell or mine the vessel, blame it on the Japanese, and thus cause a crisis in Japanese-American relations. Chungking characterized the story as "fantastic".

Maginot Line for P.I. Sought by McArthur

Gen. Douglas McArthur, military adviser to the Philippine Army and former chief-of-staff of the U.S. Army, intends to begin construction of a "Maginot Line" of defense on Luzon island within the next three years, according to a report filed in the Philippine Assembly on Feb. 3 by Assemblyman Maximo M. Kalaw, *United Press* reported. Luzon is the northernmost sizeable island in the Philippine group and is closest to Japan.

Interesting references to the Philippine question were made by Rear-Admiral Claude C. Bloch, commandant of the 14th Naval District at Pearl Harbor, Hawaii, in an address to a women's patriotic conference in Washington, D.C. on Feb. 1. The Admiral urged the United States to decide quickly whether to sever ties with the Philippines and withdraw to outposts at Guam or Hawaii, or to remain in the Philippines and construct an adequate naval base there. If severance of ties was decided upon, he said, Guam should be made impregnable. Whether such action would be construed as a friendly or hostile gesture by another power (obviously referring to Japan) should not be a deciding factor, he asserted.

Shanghai Workers' Cost Of Living Rises Again

The cost of living index of Shanghai workers rose another 7.03 per cent in January as compared with December, according to the latest monthly report of the Industrial Section of the Shanghai Municipal Council. The index stood at 325.44 in January as compared with 304.06 in December and 100 in 1936. The purchasing power of the Chinese dollar was reduced from $0.3289 of its 1936 value in December to $0.3073 in January. Heavy buying due to the approach of the Chinese New Year festival, cold weather and snowstorms during the last week of January, and continued price manipulation, were the factors held responsible for the fresh upward spurt of the index.

The desperate plight of the city's poor is graphically illustrated in a report that more than 2,000 persons, of whom 80 per cent were children, perished of cold and hunger on the streets during December and January. Several hundred more died in the present month.

German Missionary Said Killed by the Japanese

A German missionary was killed by Japanese troops who recently raided a German church at Tsingyuan, in Kwangtung Province, the *National Herald* reported Feb. 1. During the raid, the paper said, more than 100 Chinese refugees were taken prisoner and three Chinese women slain.

Outstanding Events in the Sino-Japanese War A DAY-TO-DAY SUMMARY

First installment of this day-to-day summary constituting a complete record of outstanding events in the Sino-Japanese war on all fronts appeared in the September 11th (1937) issue of The Review.

January 13

Chinese troops active on all fronts, according to Chinese war dispatches. Major hostilities raging in Kwangsi and Hunan.

Two thousand Japanese soldiers allegedly wiped out by Chinese forces at Tangpo, on the highway between Nanning and the sea, on Jan. 9, Chinese reports claimed. Japanese reports asserted that about 100 Chinese troops had appeared near Tangpo but had been repulsed.

In northern Kiangsi, Chinese forces approached the western outskirts of Tehan, north of Nanchang, where fighting now in progress. Heavy fighting also reported in central Hupeh, with the Chinese attacking Suihsien and Chienkiang.

American circles in Chungking reported that a Japanese ship had been blown up on the Yangtsze below Hankow.

Split in the Wang Ching-wei camp reported, as three of his leading supporters, Chen Kung-po, Kao Tsung-wu and Tao Hsi-sheng were said to have left Shanghai for Hongkong.

National Relief Commission at Chungking declared that $2,000,000 had been spent on refugee relief in Fukien, Kwangtung and Kwangsi.

Seventy Chinese fishing boats were attacked by Japanese warship off Swatow on Jan. 11 resulting in some 1,000 casualties, according to Chinese report.

January 14

Japan's third "war cabinet" under Gen. N. Abe resigned **en bloc**, after being in office for four and a half months. Admiral Mitsumasa Yonai, one-time Commander-in-Chief of the Japanese Third Fleet in Shanghai and thrice Minister of Navy, appointed new premier.

Maj.-Gen. Akito Nakamura, Commander of the Imaimura Division, reported killed in action at Kunlunkwan, 33 miles northeast of Nanning, Dec. 24.

Eight Japanese bombers allegedly shot down in a recent air battle with Chinese planes over Liuchow in Kwangsi, according to Chinese report.

Japanese steamer, the **Sumei Maru**, sank on Jan. 10 at a point 25 miles from Hankow after two explosions, **Reuter** reported. The Japanese attributed the explosions to Chinese mines.

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January 15

Formation of new Japanese cabinet completed.

Premier—Admiral M. Yonai.

Foreign Minister—Hachiro Arita (held the same portfolio in the Hiranuma Cabinet).

Finance Minister—Yukio Sakurauchi.

Navy Minister—Vice-Admiral Zengo Yoshida (no change).

War Minister—General Shunroku Hata (no change).

Home Minister—Count Hideo Kodama.

Minister of Justice—Procurator-General Naotatsu Kimura.

Overseas Minister—General Kuniaki Koiso (held the same portfolio in the Hiranuma Cabinet).

Minister of Communications—Masanori Katsu.

Minister of Education—Chinjiro Matsurra.

Minister of Commerce—G. Fujiwara.

Minister of Welfare—Shigeru Yoshida, former Ambassador in London.

Minister of Agriculture—Toshio Shimada, Executive-General of the Seiyukai Party.

Minister of Railways—Tsuruhei Matsuno, Director of the Seiyukai Party.

Secretary-General of Cabinet—Sotaro Ishiwata.

Director of Legislation Bureau—Hisatada Hirose.

Japanese military train reportedly blown up by Chinese mines yesterday near Fengtsun station on the Peiping-Hankow Railway.

Sir Herbert Phillips, retired British Consul-General in Shanghai, left for England.

Three to four million bags of rice and wheat, 4,000,000 piculs of cotton, and $3,000,000 worth of silk were seized by the Japanese in the occupied areas during the past year, according to figures given in the latest issue of the **Trade Fortnightly**, published by the Foreign Trade Commission at Chungking.

Japan's aim in China is to abolish foreign domination, declared Lieut.-Gen. Masaharu Homma, Japanese Army commander in Tientsin and author of the Japanese blockade of the Tientsin British and French Concessions.

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January 16

Chinese claimed important victory in Hupeh battle. Three thousand Japanese troops allegedly killed as the result of a 6-day battle which ended yesterday, around Chunghsiang and the Han River valley in Hupeh, according to Chinese field dispatches. The dispatches also stated that Japanese troops had attacked Chinese positions on all fronts during the past few days, but had been repulsed with heavy losses.

Wang Chung-wei, head-elect of the projected puppet "Central Government" of Japanese-occupied China, telegraphed Gen. Chiang Kai-shek urging him to negotiate peace with Japan on the basis of the Konoye statement of Dec. 22, 1938. Wang threatened: "If you (Gen. Chiang) should persist in your opposition, I may be compelled to proceed myself to conclude a local peace with Japan."

Admiral Yonai, Japan's new Premier, announced a three-point program: creation of a "New Order" in East Asia, readjustment of Japan's relations with foreign Powers, and full support for the formation of a new "central" regime in China to be headed by Wang Ching-wei.

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January 17

Chinese press in Chungking ignored the "peace" appeal sent to Gen. Chiang Kai-shek by Wang Ching-wei. Official quarters reticent, the general public attaching no importance to the message.

Evacuation of Japanese troops from China was impossible so long as the Chungking Government continued resistance against Japan by taking offensive military action, a spokesman for the Japanese Embassy declared in Shanghai.

Chinese guerrillas on Jan. 10 entered Kashing, on the Shanghai-Hangchow Railway, and burned three Japanese military depots, according to field dispatches received at Chungking.

A Chinese battalion under Captain Kung Fan-ti reported wiped out near Suihsien, in northern Hupeh, on Jan. 13 by 2,000 Japanese troops using heavy artillery and bombing planes. The

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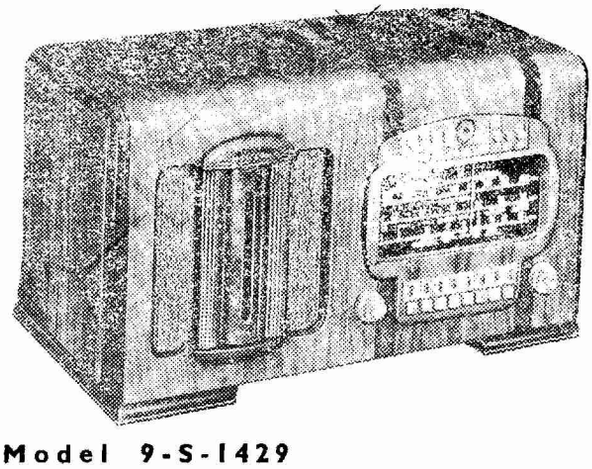

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Who's Who in China

Miss Averil Tong, artist and relief worker; born in Shanghai, 1908; educated in missionary institutions but mostly under private tutorship; married to Mr. Ernest Tong, formerly

Miss Averil Tong (Mrs. Ernest Tong)
唐士宣夫人

secreatary of the City Government of Greater Shanghai; since the outbreak of the current Sino-Japanese war, she has been engaged mainly in refugee relief work; organized and led a troupe of ten Chinese stage performers and musicians to America, 1937-38, to raise funds for Chinese war refugees; the troupe by its performaces given in America succeeded in raising some US$6,000; she is now residing in Shanghai.

Japanese said to have suffered some 800 casualties.

Kokumin Shimbun, organ of the Japanese Army in Tokyo, opposed the new Premier, Admiral Yonai, whose selection the paper labelled as a "conspiracy on the part of officials near the Throne." The **Kokumin** predicted that the new cabinet would be short-lived.

The new Japanese cabinet decided to postpone the reopening of the Diet until Jan. 30. The Diet was officially set to reconvene on Jan. 21.

Anti-British agitation growing in Tsinan, Shantung capital. Seventy-seven shops dealing in British goods were fined on the ground that they failed to register the goods.

An appeal for the support of the American people to stop the flow of war materials from America to Japan was made by Rear-Admiral Harry E. Yarnell, former Commander of the U. S. Asiatic Fleet, and newly appointed honorary Vice-Chairman of the Committee for the Non-Participation in Japanese Aggression.

French official circles in Paris denied reports from Japanese sources that arms and munitions were being sent to South China by the French Indo-China railway.

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January 18

Chinese troops in the past 10 days reported to have occupied three strategic outposts immediately north of Canton, namely, Sunkai, Kwuntin and Fayun.

Reports of clashes between troops under the command of Gen. Yen Hsi-shan and units of the 8th Route Army in Shansi, as alleged by foreign travellers arriving at Tsingtao from Shansi recently, were officially denied in Chungking. Government quarters branded the allegations as absolutely untrue but admitted that there had been cases of insubordination.

The total issue of legal tender by the four government banks, (the Central Bank, the Bank of China, the Bank of Communications and the Farmers' Bank), was officially stated as $3,081,787,295. The total reserve of the four banks put at $1,556,159,138.39.

Nelson T. Johnson, American Ambassador to China, arrived at Shanghai from Peiping. Would visit Nanking and Hankow before returning to Chungking.

Rich Oil Field Said Discovered in Kirin

Prospectors working near the confluence of the Pai and Fula Rivers, tributaries of the upper Sungari southeast of Kirin, are reported by the *Domei* agency to have discovered a "hidden" oil field. The oil was located by men working under the direction of Mr. Naoji Azuma, Pacification Commissioner, sent by the Concordia Society to the Antu and Fusung districts. Mr. Azuma had received reports that villagers had been burning a black, glue-like substance unearthed in the vicinity of Pienlatze, four kilometers south of the meeting-place of the two streams. He and his party travelled there and investigated with the aid of the Japanese Garrison, finally ascertaining that "vast oil deposits" were buried in the area. The report added that large-scale prospecting and trial boring operations will be commenced with the advent of spring.

Frontier Conference Breakdown Explained

Dissolution of the Border Demarcation Commission, in which representatives of Japan, Soviet Russia, Manchukuo and Outer Mongolia had been endeavoring to reach an agreement for the delimitation of the Manchukuo-Outer Mongolian frontier in the Nomonhan region, has been misunderstood in many quarters, a spokesman of the Foreign Office in Tokyo stated on Feb. 2.

The spokesman confirmed that the delegates had failed to reach an agreement and that they had wound up their business and left Harbin, but said there were two courses by which the Nomonhan border difficulties could be overcome. The first was to resume negotiations at Moscow on a political basis, and the second to refer the question to a General Border Commission which both Japan and Soviet Russia had agreed to organize for demarcation of the entire border between Manchukuo, Soviet Russia and Outer Mongolia.

This Commission, he added, would be formed in due time. The Commission which met at Harbin after opening sessions at Chita was merely a technical body. They made progress during the first half of the 16 sessions and then found that their "technical views" regarding demarcation of the border conflicted. They consequently dissolved, "agreeing to disagree."

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Men and Events

Saburo Kurusu, newly-appointed Japanese ambassador to Germany, presented his credentials to Chancellor Hitler on Feb. 1.

*

J. V. Crowe, manager of Ford Motor Company, Exports, Inc., departed on a business trip to Hongkong on Saturday, Feb. 3.

*

Sir Herbert Marler, former Canadian Minister in Tokyo and Washington, died in Montreal on Jan. 31 at the age of 63 years.

*

The Vatican has appointed Pater Secondino Lacchi to the position of Vicar Apostolic of Changsha. Pater Secondino is a Franciscan monk, 39 years of age, who studied at Turin and has been stationed at Changsha since 1937.

*

Seven foreigners, whose names and nationalities were not disclosed, were arrested in Bombay on Feb. 2 for attempting to evade the British censorship regulations by posting letters containing German addresses on board an Italian liner.

*

Mrs. Mary Oldham Arnhold was granted a divorce from Harry Edward Arnhold in the British Supreme Court in Shanghai on Feb. 2. Costs were awarded the petitioner, who was represented by Attorney J. R. Jones. The case was heard by Judge Sir Allan Mossop.

*

The Japanese Government, on Feb. 1, decorated Frank Lancelot Persons, an Australian, with the Small Cordon of the Rising Sun for meritorious service in the promotion of trade between Japan and Australia. Mr. Persons served as honorary Japanese consul at Adelaide.

*

According to a report from Cairo, carried out of Amsterdam last week by the German *Transocean* agency, quintuplets have been born to an Egyptian woman. Like the Dionne "quints," all are girls and are said to be progressing finely. Their parents already had six sons and a daughter, the report said.

*

Dr. Juan Marin, Chilean charge d'affaires, returned to Shanghai from Chungking on Feb. 1 after presenting his credentials to President Lin Sen of the Chinese National Government. On behalf of the Chilean Government, Dr. Marin conferred upon Dr. Wang Chung-hui, China's Foreign Minister, the "Orden al Merito."

*

The Cosmopolitan Dock, property of Shanghai Dock and Engineering Company, in liquidation, has been sold to Shanghai Dockyards, Ltd., according to a report published in the Shanghai papers last week. Shanghai Dockyards, Ltd., of which J. A. Bonnyman is manager, is proprietor of Yangtszepoo, International and Tunkadoo Drydocks, two slipways in Yangtszepoo and considerable property in Yangtszepoo. The Cosmopolitan Dock was valued some time ago at Ch.$652,638.

Finland still hopes to be host for the Olympic Games, according to a *Reuter* report from Helsinki on Feb. 1, quoting M. Miekkinen, secretary-general of the organizing committee. He declared that the games were "symbol of an ideal," as Finland was known as a nation of sport and a citadel of peace before the present circumstances arose.

*

Isolationist and pacifist America killed 32,600 persons and injured 1,150,000 in traffic accidents in 1939 according to the annual casualty report issued on Feb. 1. According to the German *Transocean* service, the 1939 toll of dead and wounded on the public street and motor road "battle-front" was one per cent less than the preceding year.

*

The executive committee of the American Federation of Labor, at a conference held at Miami, Florida on Feb. 2, adopted a resolution which designated Adolf Hitler and Josef Stalin as "enemies of mankind." The resolution declared that "as long as their creed of totalitarianism rules in Germany and Russia, the peace of the world is in jeopardy."

*

An air-route between the United States and Scandinavian countries is now under consideration, according to a report by the German *Transocean* service from Washington, D. C., on Feb. 2. The route would go via Iceland and Newfoundland and would have connections in Sweden, Norway, Denmark and Finland, according to the report.

Standard Oil Company of New Jersey has purchased the patent rights from the German I. G. Farbenindustrie for the production of synthetic rubber in the United States, according to *Reuter* report from New York on Feb. 2. Officials of Standard Oil announced they had offered licenses to rubber companies in the United States to utilize the raw material for their own requirements.

*

Major C. J. Corbin and Major W. M. Graham of the Shanghai Volunteer Corps, who have been called up to join their regiments in the British Expeditionary Force, were given a farewell luncheon by the local Royal Air Force Association on Feb. 2. The chairman of the Association, V. Holland, presented each of the officers with inscribed tankards and wished them rapid promotion and a safe return from the war.

*

Seven Chinese were sent to jail and 30 were detained by the immigration authorities at New York on Feb. 2 as a result of a fight with officers of a Norwegian freighter, upon which the Chinese were employed. According to the report (*United Press*) a dispute developed between the Chinese and the cook of the freighter due to the cook's refusal to serve coffee after the galley had been closed. A serious fight developed when the police intervened, resulting in 15 members of the Chinese crew being injured while one of the ship's officers and a foreign dock guard were also sent to the hospital. The name of the ship was the Braganza.

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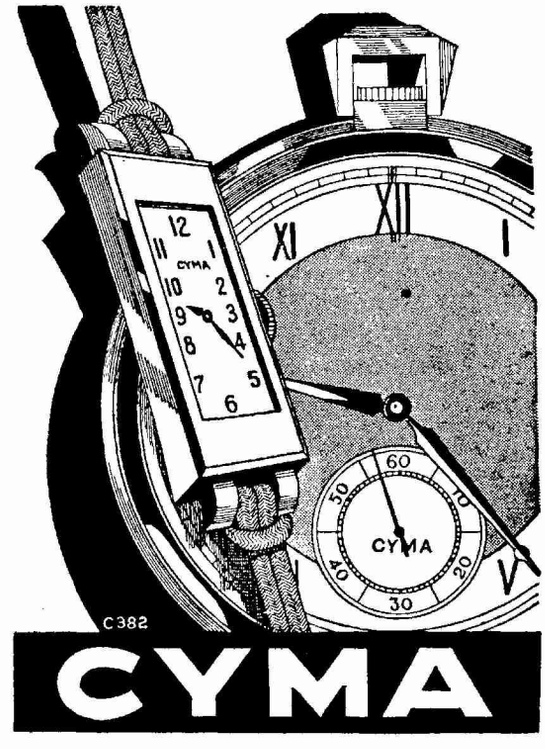

More than 600 persons were arrested in Rangoon in connection with riots between Hindus and Moslems, according to *United Press* report from that city on Feb. 1. The riots had been in progress for several days and had resulted in 13 persons killed and 140 injured. It was necessary for military forces to guard strategic points about the city, according to the report.

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Three American sailors, Albert C. Evans, Jr., Lawrence Morgan and Theodore W. Johnson, were convicted of vagrancy and sent to the Ward Road jail in the International Settlement for three months by Judge Milton J. Helmick in the U. S. Court for China on Jan. 31. The men were employed on a Greek ship but left it at Yokohama, from which port they were sent to Shanghai by the Japanese authorities. All three of the men were without passports or identification papers and have experienced serious difficulties since their arrival here in destitute condition. They received help from the American Civilian Relief Committee, Salvation Army, Navy Y. M. C. A. and other organizations. They probably will be sent to the United States.

•

The Committee on Landed Estates in the Philippine Assembly is considering a plan for the purchase by the Government of all estates which are still owned by the Catholic Church, according to report from Manila on Jan. 31. The Government would purchase the estates, most of which are large producers of sugar and tobacco, and resell the church lands in small lots to thousands of tenants who now work on the land. The large estates owned by the Catholic orders have been a source of owner-tenant trouble since the American occupation of the Philippines. The U. S. Government, under the administration of Governor-General Wm. H. Taft, purchased several of the large church estates and resold the land on long-term payments to tenants.

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The Eurasia Aviation Corporation, Sino-German concern which operates airmail and passenger planes in west, southwest and northwest China, announced that all mail matter sent on Jan. 25 from Chungking to Kweilin and other points by airplane was destroyed by fire. The fire occurred on the commercial airfield at Chungking on the night of Jan. 27, the cause not being stated in the report.

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There are still 2,000,000 children working in the United States, according to a report issued Feb. 1 by the American Child Labor Committee. Half were stated to be under 16, and the other half between the ages of 16 and 17. Commenting on the report, American newspapers said it was anomalous that 2,000,000 children should be at work while 9,000,000 of their elders, mostly heads of families, were unemployed.

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Y. D. Albert Wong, who has been connected with the Legal Department of the International Settlement for the past ten years, has resigned and will engage in private practice. Mr. Wong handled more than 15,000 criminal cases while in office, according to a review of his career in the *Shanghai Evening Post* on Feb. 2. Mr. Wong was graduated from the Soochow University Law School, following which he went to New York University Law School where he received the degree of LL.B. in 1929. C. S. Bang and W. F. S. Fang have been appointed Junior Assistant Chinese Advocates in the Legal Department, following the resignation of Mr. Wong.

Kho Sin-kie, Chinese Davis Cup player, now in Great Britain, was married in London on Jan. 26 to Miss Jane Margaret Gordon-Balfour, 20-year-old English girl. Kho is a native of Java and competed in most major tournaments in Europe in recent years. In 1938 he won the British Hardcourt Open Singles Championship at Bournemouth, being the first Chinese to win a major tennis title abroad.

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Mrs. A. P. D. Telfer-Smollett, wife of Major General Telfer-Smollett, former commander of British forces at Shanghai, died on Feb. 1 in London, where she had been ill for about two weeks. Mrs. Telfer-Smollett was well-known in Shanghai where she resided for about three years, later joining her husband, who was appointed Lieut.-Governor of Guernsey Island. Their son, Second Lieut. Alastair Telfer-Smollett, who is now in the Expeditionary Force, was given leave to visit his mother in England.

•

The equipment and personnel of 21 factories in Japan will be transported to Manchukuo by the end of March this year, according to a report of the Tokyo Ministries of Commerce and Industry and Overseas Affairs. The manufacturing plants to be moved are located in the Tokyo, Osaka and Nagoya districts. Sixteen will be located in Mukden, two at Hungchun, one at Tungning, one at Poli and another at a place not designated. According to the *Domei* report, "some of the plants are engaged in the manufacture of munitions."

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Mrs. Herman Liu, widow of the late President Herman Liu of Shanghai University, who was murdered by gangsters on the payroll of the Ta Tao Government two years ago, made a radio appeal to the women of the United States on Jan. 30. The appeal was made from Chungking, where Mrs. Liu is a member of the People's Political Council. Mrs. Liu declared that Japan was the world's public enemy and urged American women to assist in "suppressing the monster."

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The U. S. S. Chaumont, well-known in Pacific ports for more than 15 years, has been found unseaworthy for further Pacific crossings, according to a report received in Shanghai last week. The ship is now undergoing overhaul at Norfolk Navy Yard. The transport's last trip to Shanghai was in August, 1939 when it arrived here from Chinwangtao with flood refugees from the Tientsin district. The Chaumont made a record Pacific crossing in 1937 when it brought Brig.-Gen. John C. Beaumont and staff of the Second Brigade and the Sixth Marines, from San Diego to Shanghai in 21 days. The Chaumont will be replaced by one of two ships which the Navy Department recently purchased from the Grace Line. Thus far there has been no report of replacing the U. S. S. Henderson, which sailed from Shanghai and northern ports last week, bound for Manila and home ports. The Henderson carried 189 Marines scheduled for home leave or retirement.

A new publication, to be known as "The Far Eastern Quarterly," is to be started shortly by a group of university professors and others in the United States who are interested in this part of the world. The managing editors are Hugh Borton, Cyrus H. Peake and Earl H. Pritchard. The editorial board will include Knight Biggerstaff, Cornell University; Woodbridge Bingham, University of California; Hugh Borton, Columbia University; Meribeth E. Cameron, Western Reserve; Kenneth W. Colegrove, Northwestern University; George B. Cressey, Syracuse University; Charles B. Fahs, Pomona College; John K. Fairbank, Harvard; Robert B. Hall, University of Michigan; Harley F. MacNair, University of Chicago; Cyrus H. Peake, Columbia University; Earl H. Pritchard, Wayne University; Harold S. Quigley, University of Minnesota; Frederick D. Schultheis. University of Washington; John W. Stanton, University of Michigan; Earl Swisher, University of Colorado; Karl A. Wittfogel, Institute of Pacific Relations. In the preliminary announcement the promoters of the new journal announce, "What we have in mind is a review devoted to China and Japan and their dependencies, Siberia, the Indo-Chinese peninsula, the East Indies and adjacent islands which will publish materials relating to the following subjects: history, politics, government, law, diplomatic and cultural relationships, economics, sociology, geography and biography." The office of the Quarterly will be 206 Low Memorial Library, Columbia University, N. Y.

Additional contributions received up to Feb. 5 brought the totals of the Friends of Finland Fund to £36.10.0d., U.S.$110 and Ch.$17,363.47, the Finnish Legation announced. Contributions are being received at the Finnish Legation, Astrid Apartments, 301 Route Cardinal Mercier, Shanghai.

•

The new Szechwan-Yunnan highway, extending over a distance of 915 kilometers and linking Kunming, capital of Yunnan Province, with Luchow in southern Szechwan, was inaugurated on Feb. 2, according to a *Kuo Min* report from Kunming. It is possible to traverse the highway by automobile in four and a half days, the report stated.

Kokonor-Born Child is Fourteenth Dalai Lama

The Executive Yuan of the Chinese Government at Chungking on Jan. 30 confirmed that the Lama authorities of Tibet had officially accepted the six-year-old Kokonor-born Chinese boy, whose Buddhist name is Lama Teng-chu or "Living Buddha," as the "indisputable Dalai Lama 14th." The child's claim for recognition as the reincarnation of the deceased Dalai Lama was said to have withstood such authoritative tests as "divine revelations" in Kokonor Lake. He will be enthroned at the Potala monastery.

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New Books of Interest in the Far East

Frenchman Tells All !

THE SECRET SHANGHAI — By Jean Fontenoy. New York. Grey-Hill Press. 188 pages.

This book by the editor of the *Journal de Shanghai* a decade ago is well named. Some of the incidents therein chronicled are so secret that they would tax the credulity of any Shanghai resident.

Although the jacket blurb solemnly announces that: "In these pages the reader will come across some startling revelations concerning the Chinese leaders whose names have become familiar to the West through sensational headlines dealing with plots and counter plots in the great puzzle that is China," the author in the last paragraph of the book qualifies his publisher's inference of veracity by saying: "And there are my recollections, where only harmless inventions alone have been used to heighten the color of the stark truth of those bygone times."

Unfortunately the author's "harmless inventions" have so embellished many of his episodes as to make them highly incredible to anyone familiar with China and its customs. To mention one such example, Fontenoy relates the details of a Chinese general's dinner to which he was invited. Not satisfied with a generous assortment of singsong girls, the general provides a sing song boy whom he proceeds to embrace in the presence of and presumably for the delectation of his foreign guests. This "harmless invention," Messieur Fontenoy, is asking a little too much of the credulity of the reader.

The book is a composite of Chinese character studies, loosely bound together by a sequence of episodes which include an imaginary capture of Shanghai's North Station by a gang of hired thugs disguised as supernumeraries in a funeral procession and the kidnapping of a Chinese member of the French Municipal Council. In the latter tale, the victim's decapitated, mutilated body is delivered to his relatives after the ransom has been paid.

Shorn of its "harmless inventions," the book contains many keen observations of Chinese psychology and characteristics. The following estimate of a well-known type of returned Chinese student as expressed by one of Fontenoy's Chinese characters in conversation with a foreigner, is one of the best passages in the book:

"I am a very old man. Very wealthy and very ugly and filled with experience. I have seen many naive and well-intentioned young Chinese arrive in the United States from China. Human nature is not worth much, Dear Sir, when it loses the reinforcement of its traditions and its gods. So it is with my young compatriots, who drop their own ancestral rules without adopting your own morale, so essentially a part of Western ways. They get from you only the externals, such things as go with your garb. Our robe hampers speed of march, but gives dignity to the bearing. Your trousers lack that dignity, but permit a hasty gait, a fuller use of vigor and a development of bodily forces to their highest peak. Our young people adopt the trousers, but at the same time they lose dignity, without becoming robust or quick.

"It is the same with them, spiritually.

"They devote themselves to things mechanical, without acquiring the knowledge or turn of wit which would enable them to perfect any of these contrivances or invent new ones. They adopt your outspokenness, and exaggerate it to a point of grossness, without holding themselves to your labors nor exacting of themselves that efficiency which excuses bluntness of manner. They have lost their patience and have not gained your zeal. You are all aboil to get things done; but they know only how to bore themselves. They have forgotten our morals, without adopting yours; our religion, without believing in yours. They shift back and forth between our culture and that of the Occident, keeping only the features of each for themselves. They are like those morons who think they are Caesars because they are bald; or Napoleon if they set their hands into their vests."

V.K.

Among the Head-hunters

CANNIBAL CARAVAN—by Charles "Cannibal" Miller. New York. Lee Furman, Inc. 318 pp.

Of this book, Hendrik Willem Van Loon writes: "a savage, fantastic true story of the Stone Age flourishing in twentieth-century Dutch New Guinea." The story is certainly a savage one about aboriginal savages

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January, 1940 Vol. X. No. 1

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of the lowest caste, and as we read on through its pages, the author takes us with him into their villages and shows them to us in all their naked, realistic savagery. We hear the beating of their war-drums, we see them as they set out on their raids to burn the villages of their enemies and to bring back heads as prizes of victory; we feel nauseated at the disgusting sight of their cannibalistic feasting and horrible debaucheries. But what is more: we shrink from the sight of a white man, symbol of twentieth-century civilization, taking part in one of these raids, shouting with the loudest of the savages, and after the victory seated in the circle with them as the bowl of hot human blood is passed around. How far removed is the twentieth-century author from the "Stone Age" savage? And was it this gory feast that pinned on the author the soubriquet "Cannibal"?

Mr. Miller's experiences range far and wide in other fields than Dutch New Guinea, and the jacket of the book furnishes us with his background and his lifework up to the present stage. He writes interestingly; the scenes he depicts should be enough to hold the attention of the reader, and by his descriptive passages he keeps that attention to the end. A bit of twentieth-century propriety might have toned down some of the realism of the author both in word and photographic illustration, for his camera is a candid one to say the least, and in certain chapters his language is so strong and ultra-realistic that he leaves nothing to the imagination of the reader, but makes the debaucheries of the savages, though committed in the dark of the forest, stand out in all the public glare of the day. A little more restraint on the part of the author as well as his savages would have made the book more palatable. He knows the flora and fauna of the land about which he writes, and while others have treated this subject of the cannibals, both full-sized and "condensed" (as Mr. Miller terms the Pigmies) and the flora and fauna also ly from a scientific point of view, of Dutch New Guinea more thorough-Charles "Cannibal" Miller has nevertheless produced an intensely readable book.

J. A. L.

Linguistic Faults

WE WHO SPEAK ENGLISH: AND OUR IGNORANCE OF OUR MOTHER TONGUE—By Charles Allen Lloyd. New York, Thomas Y. Crowell Co., 1939. 308 pages, index. Price, U.S.$2.50.

Strangely enough, this book with the inclusive title is written by an American for American readers, with the expressed belief that future developments of the English language rest largely upon the spoken language in the United States. In spite of this conclusion, it is interesting to note that Professor Lloyd illustrates most of his grammatical points from Keats, Macaulay, Milton and Shakespeare.

On the whole, the book is a practical guide to improvement in the use of the English language. The author's method is to discuss definite errors. The reason for the error is shown, the correct usage is then illustrated in sufficient detail to develop a feeling for the correct form. Particularly does he take up the cudgels against what he considers certain false teachings in American schools: The "groundless notion" that it is incorrect to end a sentence with a preposition; and the idea that it is incorrect to begin a sentence with the words *and* or *but*. Troublesome verbs, subjunctives, pronunciation and possessives are also treated.

Of particular concern to Professor Lloyd is the inadequate teaching of the mother tongue in high schools and colleges in the United States. "There was a time, he says," when an accurate knowledge and use of his native tongue was considered the first and most conclusive mark of an educated man. Perhaps the time will come again when we may reasonably expect our college graduates to be educated men and women and to give evidence of that education by the way in which they handle our mother tongue."

F. M. R.

Entertaining Fiction

THE HOLY TERROR—By H. G. Wells. London, Michael Joseph, Ltd. 447 pp.

This volume, announced as a Book Society Choice, opens with the words, "It's a Holy Terror," and closes with a paragraph in quotation marks: "This book exaggerates here and there—and it simplifies things—The condensed truth about the World Revolution. It is about as real as most historical stuff." That is what H. G. Wells' "The Holy Terror" does: it exaggerates, but hardly anyone will say, even Mr. Wells himself, that "it is as real as most historical stuff."

However, it makes entertaining reading for those who in imagination wish to take flights with H. G. Wells and follow through with him all the intricacies of the plot. The characters, of course, are well drawn in the true Wellsian manner, with just enough of diversity to keep them interesting always, whether in repose or action—and some of the action is rather strong. The interplay of the various moods and phases, to say nothing of events and crises piling up on events and crises, keep the plot moving along smoothly and skilfully.

The story itself? It must be read to be really appreciated, and the reader, though he or she may have some difficulty taking all the jumps with the author and his main character, still will be well rewarded as he comes with them down the stretch to the finish.

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In re. Last Will and Testament of JOHN McGREGOR GIBB, JR. Deceased

Cause No. 4448

Special Proceedings No. 2327

NOTICE

Pursuant to an Order of said Court notice is hereby given to all persons having claims against the estate of John McGregor Gibb, Jr., deceased, to present the same with vouchers to the undersigned on or before August 20th, 1940, and all persons owing debts to said deceased are hereby notified to make payments of the same in due course to the undersigned.

Alice Gibb Dobbs
Thomas Candlin Gibb
Executors,
c/o Allman, Davies & Kops
208 Hamilton House
Shanghai, China.

Shanghai, China.
January 22, 1940.